FORTIS ALBERTA

Annual Information Form
Year Ended December 31, 2018

March 27, 2019

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GLOSSARY

Except as otherwise defined, or unless the context otherwise requires, the following terms have the meanings set forth below:

"ABCA" means the *Business Corporations Act* (Alberta);

"AESO" means the Alberta Electric System Operator;

"AIES" means the Alberta Interconnected Electric System;

"AIF" means the Annual Information Form;

"ARE" means the Audit, Risk and Environment Committee of the Board;

"AUC" means the Alberta Utilities Commission;

"AUC Act" means the *Alberta Utilities Commission Act*;

"Balancing Pool" means an independent government agency set up to manage the transition to a competitive generation market and administer the Power Purchase Arrangements;

"Board" means the Board of Directors of FortisAlberta Inc.;

"Corporation" means FortisAlberta Inc.;

"DBRS" means DBRS Limited;

"DC SERP" means the FortisAlberta Defined Contribution Supplemental Employee Retirement Plan;

"Debentures" means, collectively, the Series 04-2 Debentures, Series 06-1 Debentures, Series 07-1 Debentures, Series 08-1 Debentures, Series 09-1 Debentures, Series 09-2 Debentures, Series 10-1 Debentures, Series 11-1 Debentures, Series 12-1 Debentures, Series 13-1 Debentures, Series 14-1 Debentures, Series 14-2 Debentures, Series 15-1 Debentures, Series 16-1 Debentures, Series 17-1 Debentures and Series 18-1 Debentures;

"EMS" means the Environmental Management System;

"EPCOR" means EPCOR Energy Alberta GP Inc.;

"EUA" means the *Electric Utilities Act* (Alberta);

"Executive Officer" means an individual who is:

(a) a chair, vice-chair or president;
(b) a chief executive officer or chief financial officer;
(c) a vice-president in charge of a principal business unit, division or function including sales, finance or production; or
(d) performing a policy-making function in respect of this issuer;

"Fortis" means Fortis Inc.;

"FortisAlberta" means FortisAlberta Inc.;

"FPA" means forest protection area as defined by the Alberta *Forest and Prairie Protection Act (Alberta)*;

"2012 Agreement" means all of the Corporation's franchise agreements entered into after 2012, based on a standard agreement template approved by the Alberta Utilities Commission in Decision 2012-255: *Town of Hinton, New Franchise Agreement Template and Franchise Agreement with FortisAlberta Inc*.;

"GHR Committee" means the Governance and Human Resources Committee of the Board;

"**GCOC**" means Generic Cost of Capital;

"GWh" means a gigawatt hour, which is a measure of energy used over a one-hour period that is equal to 1,000,000,000 watts;

"HEEA" means the *Hydro and Electric Energy Act* (Alberta);

"Indentures" means, collectively, the trust indentures respectively dated October 25, 2004 and September 7, 2011, between the Corporation and the Trustee, as each may be amended or supplemented from time to time, which trust indentures collectively provide for the issuance of the Debentures;

"ISO" means International Organization for Standardization;

"Korn Ferry" means Korn Ferry International;

"KWh" means a kilowatt-hour, which is a measure of energy used over a one-hour period that is equal to 1,000 watts;

"MGA" means the *Municipal Government Act* (Alberta);

"MSA" means the Market Surveillance Administrator;

"NEO" or Named Executive Officer means each of the following individuals:

(a) chief executive officer;
(b) chief financial officer; and
(c) the most highly compensated Executive Officer of the Corporation other than the Chief Executive Officer and Chief Financial Officer whose total compensation was more than $150,000 for the financial year;

"PBR" means Performance Based Regulation;

"PBR Utilities" means Alberta distribution utilities regulated under PBR;

"Power Pool" means the power pool of Alberta;

"Power Purchase Arrangements" means the legislated commercial arrangements known as power purchase arrangements;

"PSU" means performance share unit;

"PUA" means the *Public Utilities Act* (Alberta);

"Rate Base Assets" means all distribution utility assets in which the Corporation has invested to provide service to distribution utility customers, which are subject to a regulated rate of return that is considered in customer rates;

"**REA**" means Rural Electrification Association;

"ROE" means Return on Equity;

“RRO” means Regulated Rate Option;

“RRO Customers” mean certain small and medium-sized customers for whom distribution utilities are required to continue to arrange for or provide retail services;

“RRSP” means registered retirement savings plan;

“RSU” means restricted share unit;

“S&P” means Standard and Poor’s, a Division of The McGraw-Hill Companies, Inc.;

“TFOs” means Transmission Facility Owners;

“TransAlta” means TransAlta Utilities Corporation;

“Towers Watson” means Willis Towers Watson;

“Trustee” means Computershare Trust Company of Canada, in its capacity as trustee under the Indentures;

“TSX” means Toronto Stock Exchange; and

“UUWA” means the United Utility Workers’ Association of Canada.

All dollar amounts in this AIF are expressed in Canadian dollars unless otherwise noted. Readers are directed to consider all forward looking information in this Annual Information Form with the qualifications contained in the section entitled “Forward Looking Information” in this document.

THE CORPORATION

FortisAlberta is the owner and operator of a regulated electricity distribution business in the Province of Alberta and was incorporated under the *ABCA* on January 1, 2000. The Corporation is an indirect, wholly-owned subsidiary of Fortis, a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities. FortisAlberta’s registered head office is located at 320 – 17th Avenue S.W., Calgary, Alberta, T2S 2V1. The Corporation has no subsidiaries.

BUSINESS OF FORTISALBERTA

FortisAlberta is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity. It is intended that the Corporation remain a regulated electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

FortisAlberta operates a predominantly rural and suburban, low-voltage distribution network in central and southern Alberta, totaling approximately 125,000 kilometers of wires. The Corporation’s distribution network serves approximately 564,000 customers comprised of residential, commercial, farm, oil and gas, and industrial consumers of electricity. In 2018, FortisAlberta distributed approximately 24,200 GWh of electricity. This includes electricity distributed to those customers within its service area that are connected directly to the transmission grid.

The Corporation is regulated by the AUC pursuant to the *AUC Act*. The AUC’s jurisdiction, pursuant to the *EUA*, the *PUA*, the *HEEA* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation, including the rates and terms and conditions on which service is to be provided by those utilities.

Prior to January 1, 2013, the Corporation operated under a traditional form of cost-of-service regulation as prescribed by the AUC. Under this form of regulation, rate orders issued by the AUC established the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provided a rate of return on a deemed capital structure applied to approved Rate Base Assets. Under the traditional form of cost-of-service regulation the Corporation applied for the revenue requirement based on estimated costs of service. Once the revenue requirement was approved, it was not adjusted if actual costs of service were different from what was estimated, other than for certain prescribed costs that were eligible for deferral treatment and were either collected or refunded in future rates. As of January 1, 2013, the Corporation began operating under a new form of cost-of-service regulation known as performance based regulation, or PBR, which is discussed further under "Performance Based Regulation (PBR)" on page 14. The implementation of PBR is not intended to alter the basis for cost-of-service regulation, being the Corporation's right, under the *EUA*, to a reasonable opportunity to recover the prudent costs of service and the right to earn a reasonable return on equity.

FRANCHISES

FortisAlberta customers that are located within a city, town, village or summer village boundary are served through franchise agreements between the Corporation and the respective customers' municipality of residence. To ensure the exclusive right to own and operate the electrical distribution system within municipal boundaries, FortisAlberta maintains standard franchise agreements with numerous municipalities. Under section 47 of the *MGA*, municipal governments in Alberta have, upon termination of a franchise agreement, the right to own electricity distribution utilities by purchasing the assets of FortisAlberta that are located in their municipal boundaries. Any franchise agreement that is not renewed at the expiry of the term, continues in effect until either the Corporation or the municipality terminates it with the approval of the AUC. If a franchise agreement is terminated and the municipality subsequently exercises its right under the *MGA* to purchase FortisAlberta's distribution network within the municipality's boundaries, the Corporation must be compensated. Compensation would include payment for FortisAlberta's assets on the basis of a methodology approved by the AUC.

FortisAlberta holds franchise agreements with 160 municipalities within its service area. The franchise agreements include ten-year terms with an option to renew for up to two subsequent five-year terms. Over 99% of the Corporation's franchise agreements are now on the 2012 Agreement, and are not set to expire on the initial term until the end of 2022 and beyond.

MARKET AND SALES

The following tables compare 2018 and 2017 distribution revenues and energy deliveries by rate class:

Rate Class	Revenue (1) 2018		2017	
	($000)	%	($000)	%
Residential	187,176	30.9	178,677	30.7
Large Commercial, Industrial and Oilfield	128,385	21.2	121,159	20.8
Farm	74,674	12.3	75,899	13.0
Small Commercial	73,919	12.2	70,979	12.2
Small Oilfield	50,643	8.4	50,981	8.7
Other	26,538	4.4	26,310	4.5
Transmission Connected	1,045	0.2	951	0.2
Total Energy Revenue	542,380	89.6	524,956	90.1
Rate Riders, Deferrals and Adjustments	63,063	10.4	57,845	9.9
	605,443	100.0	582,801	100.0

(1) Includes customers within FortisAlberta's service area that are connected directly to the transmission grid.

Rate Class	GWh Deliveries (1) (2) 2018		2017	
	GWh	%	GWh	%
Residential	3,175	13.1	3,077	13.0
Large Commercial, Industrial and Oilfield	10,128	41.9	10,138	42.7
Farm	1,475	6.1	1,449	6.1
Small Commercial	1,435	5.9	1,394	5.9
Small Oilfield	891	3.7	894	3.8
Other	50	0.2	66	0.3
Transmission Connected[3]	7,024	29.1	6,691	28.2
Total Energy Deliveries	24,178	100.0	23,709	100.0

(1) Includes customers within FortisAlberta's service area that are connected directly to the transmission grid.
(2) Energy deliveries include adjustments related to prior periods.
(3) Transmission Connected energy is based on interim settlement that is expected to be finalized in May 2019.

The revenue and energy delivery tables above align with the rate classes on which FortisAlberta’s tariff billing is based. These rate classes span industry classifications (also referred to as industry codes) and are grouped in broader categories for regulatory filings and available online at the AUC website at www.auc.ab.ca.

While FortisAlberta does not forecast or record revenue by industry classification, the Corporation does forecast and record distribution energy, or GWh, by both industry classification and rate class. The following table provides a mapping for distribution from rate class by industry classification.

Mapping for Rate Class by Industry Classification

Category	Rate Class / Industry Code	Res	Farm					Other		Small Commercial	Small Oilfield	Large Commercial, Industrial and Oilfield	
		Rate 11 Residential	Rate 21 FAI Farm (1)	Rate 23 FAI Grain Drying (1)	Rate 24 REA Farm (2)	Rate 26 FAI Irrigation (1)	Rate 28-29 REA Irrigation (2)	Rate 31-33 Street Lights	Rate 38 Yard Lights	Rate 41 Small General Service	Rate 44-45 Oil & Gas Service	Rate 61 General Service	Rate 63 Large General Service
Retail	Residential	•								•		•	
	Commercial									•		•	•
	Outdoor Lighting							•	•				
Wholesale	Small Wholesale											•	•
Farm	FAI Farm (1)		•	•						•		•	
	FAI Irrigation (1)					•							
	REA Irrigation (2)						•						
	REA Farm (2)				•								
Oil and Gas	Oilfield									•	•	•	•
	Cavern Storage									•		•	•
	Pipelines									•		•	•
	Refineries											•	
	Gas Processing									•		•	•
Other Industrial	Misc. Industrial									•		•	•
	Chemical Plants									•		•	•
	Cement Plants									•		•	
	Food and Beverage									•		•	•
	Metal Products									•		•	•
	Coal Mines											•	
	Forest Products									•		•	•
Interchange	Interchange									•	•	•	•

Footnotes:

1. FAI refers to FortisAlberta Inc.
2. REA refers to Rural Electrification Association.

HUMAN RESOURCES

In 2018, FortisAlberta had an average of 1,137 full time equivalent employees. Approximately 80% of the employees of the Corporation are members of the UUWA. Prior to the end of 2017, the Corporation and the UUWA negotiated the most recent three-year collective agreement. In February 2018, the agreement was ratified by 86% of the members who voted. The current collective agreement with the UUWA expires on December 31, 2020.

ENVIRONMENTAL MATTERS

Canadian federal, provincial and municipal governments share jurisdiction over environmental matters affecting the Corporation. As a result, the Corporation is subject to numerous acts, regulations and guidelines relating to the protection, preservation and enhancement of the natural environment. This includes air, water and soil, flora and fauna and natural resources including forests, grasslands, surface waters, species at risk and migratory birds. The environmental matters with the most significant impact to the Corporation are those associated with wildfires, oil releases, waste management, and wildlife and natural resources.

Environmental considerations associated with operational activities are best addressed within the context of a formal system. The Corporation has implemented programs and procedures within the context of its EMS. The EMS is consistent with the guidelines of ISO 14001, an international standard for environmental management systems. The EMS provides a framework that allows for the identification of potential environmental impacts, the establishment of processes and programs to mitigate those impacts, and the monitoring of performance to aid in the continual improvement of the Corporation’s environmental performance. The EMS is an adaptive system that evolves to the changing nature of the Corporation's business risks and objectives.

In 2018, the costs associated with adhering to environmental protection requirements were approximately $3.5 million.

ALBERTA’S ELECTRICITY INDUSTRY

The electricity industry in Alberta consists of four principal segments:

- *Generation* — Generation is the production of electricity. Generators in Alberta include both electricity producers and companies that have purchased the rights to the output of formerly regulated Alberta generators. Generators sell wholesale electricity into the Alberta Power Pool spot energy market or through direct contractual arrangements. Most of the electricity generated in Alberta is generated using coal or natural gas as the fuel source, with hydro and wind power comprising the majority of the remaining supply. Evolving environmental policy is facilitating the increased penetration of renewable generation in the province.

- *Transmission* — Transmission is the conveyance of electricity at higher voltages. Alberta’s transmission system or grid is composed of high voltage transmission lines and related facilities, which convey electricity from generation facilities to distribution networks and directly connected end-users. The Alberta transmission grid is interconnected with the transmission system in British Columbia, which is also connected to the transmission system in the Pacific Northwest of the United States. The Alberta transmission grid is also connected to that of Saskatchewan via a smaller, direct current link. Where the transmission system connects to a distribution network, transmission substations step-down the voltage to distribution level voltages. Transmission facilities are owned by TFOs that are regulated under the jurisdiction of the AUC. The approved costs of the TFOs are paid by the Alberta Electric System Operator (AESO), and the AESO funds these and other costs of its operations through a regulated system access tariff, with charges thereunder paid by users of the electric system, including FortisAlberta.

- *Distribution* — Distribution is the conveyance of electricity at lower voltages. Distribution networks are composed of low voltage power lines and related facilities, which convey electricity from transmission systems to end-use customers.

  The companies that own distribution networks are responsible for constructing, operating and maintaining the distribution network, providing non-discriminatory electric distribution service and arranging for system access service (i.e. transmission access) through the AESO for the end-use customers to whom they distribute electricity. Distribution wire owners are also responsible for metering, meter data management, wholesale billing, customer enrolment services and load settlement, and for arranging for or providing regulated rate and regulated default retail electricity supply services under the *EUA*. Load settlement is the process whereby hourly consumption is calculated for each site in Alberta, in support of the Alberta competitive electricity marketplace. The major distribution companies are regulated under the jurisdiction of the AUC.

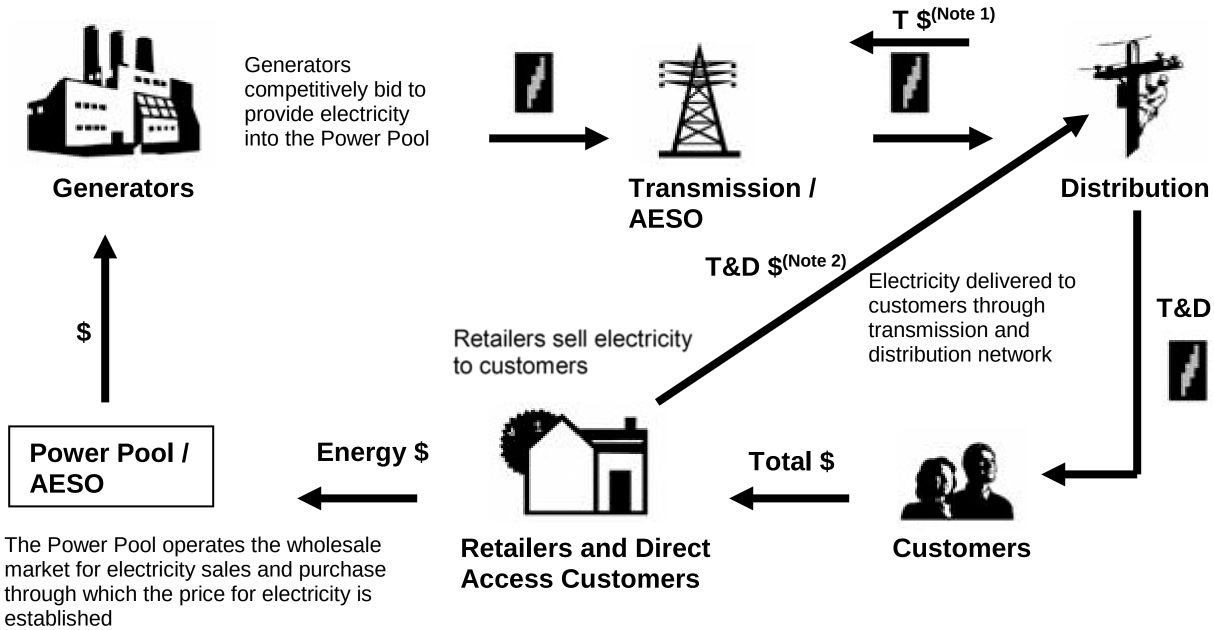
The distribution network in Alberta is comprised of the networks owned by FortisAlberta, ATCO Electric Ltd. and multiple local distribution utilities, including companies owned by the cities of Calgary and Edmonton, rural electrification associations and a number of smaller municipalities. All electricity customers have the right to choose their electricity retailer, with the distribution utility continuing to provide distribution services. While electricity distribution networks are regulated monopolies, independent retailers sell electricity to end-use customers on a competitive basis.

Distribution utilities are required to continue to provide or arrange for retail services to RRO Customers that are eligible for the RRO. RRO Customers can choose to continue to purchase electricity from the regulated distribution utility or from its appointed regulated retailer at the RRO rate. On June 1, 2017, a price cap on the RRO was introduced to protect consumers. Capping the RRO ensures consumers pay the lower of the fluctuating market rate or the capped rate of 6.8 cents/kWh.

Electricity distribution utilities, such as FortisAlberta, collect their distribution revenues from retailers (including self-retailers as defined below) that sell electricity to, and collect payment from, end-use customers. The credit risk associated with a retailer's payment obligations to a distribution utility is mitigated by regulatory provisions that require the retailer to support its payment obligations by way of credit or prudential measures if certain criteria are met. These credit or prudential measures generally involve a distribution utility obtaining security from a retailer, often in the form of a letter of credit, a third party guarantee from an entity that has an investment grade rating or a cash deposit. In the event that a distribution utility incurs credit losses, such utility may apply to the regulator to recover these bad debts in rates, but there is no guarantee that this will be approved by the regulator.

- *Retail* — Retailing is the selling or offering for sale of electricity to the end-use customers. In Alberta, retailers purchase power through the Power Pool operated by the AESO or through direct supply contracts, arrange for distribution and sell electricity and other services directly to end-use customers. Retailers are not limited in the design of rate packages offered to customers and may combine the provision of electricity with virtually any other service. Service providers are registered as electricity retailers in Alberta, most of which are registered to provide service only to large commercial and industrial customers. There are also end-use customers who act as their own retailer. These "self-retailers" are typically large commercial or industrial entities. Self-retailers interact with other participants in the Alberta electricity industry, such as distribution utilities, in the same manner as other retailers.

In Alberta's electricity marketplace, these segments and their respective market participants interact in a number of ways. The following diagram represents an overview of this interaction:



Note 1: "T $" represents the cost of transmission services paid by distribution companies to the AESO.

Note 2: "T&D $" represents the cost of transmission and distribution wire services that are charged to customers and collected from retailers and direct access customers.

REGULATION OF ALBERTA'S ELECTRICITY INDUSTRY

BACKGROUND

Historically, Alberta's electricity industry consisted of a mix of private and municipally owned utilities. Vertically integrated utilities involved in the generation, transmission, distribution and retail sale of electricity supplied more than 90% of the requirements of the Alberta Integrated Electrical System (AIES). Other municipal utilities and small independent power producers provided the remainder. Utilities entered into contracts with larger distribution customers in their service areas, using rates for different customer classes set by the regulator. Rates were designed to permit utilities an opportunity to recover their investments and operating costs and to earn a reasonable return on investment.

Alberta restructured its electricity industry in 1996. The prior system of vertically integrated regulated utilities was replaced with one that introduced a competitive market for the generation and retail sale of electricity. Distribution and transmission sectors continued to be subject to traditional rate regulation. In late 2016, the Government of Alberta confirmed its intention to transition from an energy-only market to one that includes both energy and capacity elements. The transition is ongoing, with the new capacity market design expected to be fully implemented by 2021.

KEY ENTITIES

Alberta Utilities Commission

The Alberta Utilities Commission (AUC or Commission) is an independent, quasi-judicial agency of the Government of Alberta that regulates natural gas, electric and water utilities operating in Alberta, including the Corporation. The AUC's mandate is to regulate by providing adjudication on matters related to utility operations within Alberta. The AUC regulates both rates and terms and conditions of natural gas, electric, and water utility services to ensure that customers receive safe and reliable service at just and reasonable rates. The Commission regulates the transmission and distribution sectors of Alberta's electricity industry, the major intra-Alberta gas transmission system and larger municipal electricity distributors.

Alberta Electric System Operator

The AESO is a not-for-profit statutory corporation that is responsible for overseeing the safe, reliable and efficient operation of the AIES, and for operating the Power Pool. The AESO is responsible for managing the operation of the transmission system and it recovers associated costs through a tariff approved by the AUC. The AESO's costs of operating the Power Pool are recovered through a surcharge on all electricity transacted in Alberta's market.

The AESO operates Alberta's hourly energy spot market, receives electricity supply offers and demand bids, sets the schedule for the dispatch of generating units, schedules generating units to provide system support services, carries out the financial settlement for electricity exchanged through the Power Pool and reports the hourly Power Pool price for electricity.

In its role as system operator, the AESO is responsible for maintaining the physical stability and balance of the AIES by dispatching generation and import offers to match supply to provincial and export demand on a real-time basis. The AESO administers load settlement in Alberta and recovers associated costs from charges levied on distribution facility owners. In addition, the AESO coordinates real-time operations with the owners of transmission facilities, and procures and coordinates required system support services, all with a view to ensuring the safe, reliable and efficient operation of the AIES.

Market Surveillance Administrator

The Market Surveillance Administrator (MSA) is an independent entity appointed by the provincial government. The MSA has a broad mandate to monitor market activity and investigate complaints in order to ensure that market operations are efficient and equitable. The MSA implements rules governing Alberta's electricity industry in order to prevent anti-competitive practices. While the MSA is largely an independent entity, it reports to the Chair of the AUC in connection with its own budgeting practices.

Balancing Pool

The Balancing Pool is an independent government agency originally created to administer long-term Power Purchase Agreements (PPAs) in support of Alberta's energy-only electricity market. Following the recent return of several PPAs to the Balancing Pool, this entity will continue to play a role in the operation of the new capacity market once it is implemented.

REGULATORY PROCESS

The Corporation's electricity distribution business and its distribution assets are regulated in their entirety by the AUC by authority of the *PUA*, *EUA* and the *AUC Act*.

The AUC approves tariffs for regulated distribution utilities, including the rates and terms and conditions on which service is to be provided by such utilities. The AUC's objective is to ensure that customers receive safe and reliable service at just and reasonable rates. The *EUA* requires regulated distribution utilities, such as FortisAlberta, to file a distribution tariff for approval by the AUC.

Prior to January 1, 2013, approved distribution tariffs, including that of FortisAlberta, were developed using a cost-of-service regulatory model. Under this approach, distribution utilities applied for approval to recover prudently incurred costs associated with the provision of utility service, including a fair return, on a forecast basis. These costs included:

- *Depreciation and Amortization* - an allowance for a return of capital and the depreciation or amortization on the Rate Base Assets that is approved by the AUC, net of any customer contribution amortization;

- *Income Taxes* - the allowance for the recovery of deemed income taxes in respect of the regulated operations of the distribution utility;

- *Operating and Maintenance Expense* - the prudent operating and maintenance costs associated with operating a distribution utility; and

- *Total Return* - the return on capital invested by the distribution utility in its approved Rate Base Assets, net of customer contributions, and financed through a capital structure comprised of debt and equity.

In early 2010, the AUC initiated a rate regulation initiative to reform utility rate regulation for distribution utilities in Alberta. In doing so, the AUC indicated its intention to transition from the traditional form of cost-of-service regulation to PBR. Following the determination of a revenue requirement, PBR ratemaking models delink a utility's costs and revenues during a ratemaking term by using a formula to determine customer rates on an annual basis. The result is that the utility is incented to identify efficiencies to maintain and improve returns. In Alberta, base rates for each customer class were derived from the 2012 approved revenue requirement for the affected utilities and then adjusted annually by the AUC's approved PBR formula.

Under the general PBR model adopted by the AUC, customer rates are determined by applying a multiplier, which is equivalent to an inflation factor less a productivity factor (I-X), to the prior year's rates, in each subsequent year of a five-year term. Each year's inflation factor (I) is determined using a weighted combination of the Statistics Canada Consumer Price Index and the Alberta Weekly Earnings Index, while the productivity factor (X) is set at the outset of the five-year PBR term. Other components of the formula used to determine customer rates include approved: (i) flow-through items to be collected, or refunded, annually (Y factor); (ii) incremental capital requirements (K factor or K-Bar); and (iii) exogenous costs outside of the control of the utility (Z factor).

In addition to the application to determine the revenue requirement, the regulatory model also includes a process known as a Phase II application, which establishes a rate structure by determining the specific rates to be charged to different classes of consumers. A Phase II determination provides rate schedules applicable to different customer classes, as well as terms and conditions that govern the services provided to customers. The determination of a rate structure typically involves the allocation of the revenue requirement to customer classes based on various class characteristics, followed by the design of specific rates to recover the allocated costs in a reasonable and equitable manner. Rates are designed based on a set of rate design principles, with the primary principle being to collect revenue from a particular customer class based on the costs that have been allocated to that class. The revenue collected from each customer class is determined by multiplying the approved rates by billing determinants, which are structured and applied differently to each customer class in order to reflect the major cost drivers associated with them or to recognize other rate design criteria, such as simplicity and rate stability.

Billing determinants may be either fixed or variable, with fixed billing determinants providing more revenue stability and minimizing the revenue impact of fluctuations in the volume of electricity distributed. FortisAlberta's distribution revenue can be considered stable as approximately 85% of the Corporation's distribution revenue is derived from fixed or largely fixed billing determinants. FortisAlberta's billing determinants include:

- energy (variable charges);
- demand (largely fixed charges);
- basic monthly charges (fixed charges); and
- contract kilometers (fixed distance-based charges).

For example, monthly distribution charges to residential customers are based on a basic monthly charge ($/month) plus all energy (¢/kWh) delivered, whereas distribution charges to large industrial customers are based on monthly contracted peak demand ($/kW/month) and the length of conductor required for each customer ($/km/month).

Recent Regulatory Proceedings

Performance Based Regulation (PBR)

In September 2012, the AUC issued Decision 2012-237 (PBR Decision), which approved the transition to PBR for a five-year term beginning January 2013 and ending December 2017.

In December 2016, the AUC issued Decision 20414-D01-2016 (Second Term PBR Decision) outlining the way in which distribution rates would be determined for PBR Utilities during the second PBR term, which is 2018 to 2022.

During the second PBR term, customer rates will continue to be determined using a formula that estimates inflation and assumes productivity improvements (I-X) applied to the preceding year's distribution rates. The inflation factor (I) will be determined annually in the same manner as during the first PBR term. The productivity factor (X) has been set at 0.30% for the second PBR term, compared to 1.16% for the first PBR term.

Also consistent with the first PBR term, the second PBR term will include: a Y factor, for the recovery or settlement of items determined to flow through directly to customers; a Z factor, which permits an application for recovery of costs related to significant unforeseen events; a PBR re-opener, which permits an application to re-open and review the PBR plan to address specific problems with the design or operation of the PBR plan; and an ROE efficiency carry-over mechanism, which provides an efficiency incentive by permitting a utility to continue to benefit from any efficiency gains achieved during the first PBR term for two years following the end of the first PBR term. Incremental capital funding to recover costs related to capital expenditures that are not recovered through the formula will continue to be available in the second PBR term, but will be provided using two mechanisms, as discussed below.

The capital tracker mechanism from the first PBR term will continue for capital expenditures identified as "Type 1". Type 1 capital must be extraordinary, not previously included in the utility's rate base, and required by a third party. In the event that PBR Utilities seek to obtain Type 1 capital funding, they will be required to submit, as part of their annual rates application, a forecast K factor amount relating to any Type 1 capital, 90% of which will be reflected in distribution rates as a placeholder. An annual Type 1 true-up application will be required to test the prudency of the capital expenditures and to true-up to the actual K factor amount.

Type 2 capital will include all capital in the notional going-in rate base with a provision for a prescribed level of annual capital additions funded through a K-Bar mechanism. A K-Bar amount will be established for each year of the term based on the resulting projected rate base for Type 2 capital programs.

The Second Term PBR Decision also addressed Phase II applications. PBR Utilities are permitted to submit a Phase II application subsequent to the approval of the second compliance filing. Approvals resulting from the Phase II application will apply for the entirety of the second PBR term. The Corporation anticipates filing a Phase II application in 2019. However, the timeline for this regulatory application is subject to scheduling as determined by the AUC.

2018 Annual Rates Application

In October 2017, the AUC directed the Corporation to use the approved 2017 PBR rates on an interim basis for 2018. In March 2018, the Corporation filed for 2018 PBR rates to be effective April 1, 2018. While the PBR rates were applied prospectively, they included the retrospective approval for the January 1, 2018 to March 31, 2018 period.

The rates and riders, proposed to be effective on an interim basis for April 1, 2018, included an increase of approximately 5.5% to the distribution component of customer rates. However, the overall distribution tariff impact, which included the impact of transmission and generation, was an increase of 1.8%. The increase in the distribution component of rates reflected: (i) a combined inflation and productivity factor (I-X) of negative 0.2%; (ii) a K-Bar placeholder of $24.0 million; (iii) a net collection of Y factor amounts of $6.2 million, including $5.8 million for the efficiency carry-over mechanism associated with the first PBR term; and (iv) a net collection of $5.7 million for the difference between the amounts collected from January to March 2018 under interim rates and the amounts that would have been collected through approved annual 2018 PBR rates.

In March 2018, the AUC issued Decision 23355-D01-2018 approving the Corporation's 2018 PBR rates as filed on an interim basis.

2019 Annual Rates Application

In October 2018, the AUC issued the Second Rebasing Compliance Decision and directed the Corporation to true-up its PBR rates for 2018 and 2019 accordingly in the 2019 Annual Rates Application filed on October 24, 2018. The rates and riders, proposed to be effective on an interim basis for January 1, 2019, include a decrease of approximately 0.5% to the distribution component of customer rates. The decrease in the distribution component of customer rates, incorporating the determinations of the Second Rebasing Compliance Decision, reflected: (i) a combined inflation and productivity factor (I-X) of 1.83%; (ii) a refund of $0.2 million for the true-up of going-in rates; (iii) a refund of $1.9 million for the true-up of the 2018 K-Bar; (iv) a 2019 K-Bar placeholder of $35.9 million; (v) a refund of $11.7 million for the difference between the 2016 and 2017 K factor amounts approved or applied for and the amounts collected; (vi) a refund of $1.1 million of K factor carrying costs; and (vii) a net collection of Y factor amounts of $4.6 million, including $5.9 million for the efficiency carry-over mechanism associated with results achieved in the first PBR term.

In December 2018, the AUC issued Decision 23893-D01-2018 approving the Corporation's 2019 rates, as filed in the 2019 Annual Rates Application, on an interim basis.

Generic Cost of Capital

In July 2017, the AUC initiated a Generic Cost of Capital (GCOC) proceeding in respect of the ROE and capital structure for 2018 to 2020, and rendered its decision to such proceeding on August 2, 2018. This decision approved a ROE of 8.50% and an equity thickness of 37% for the Corporation for 2018 to 2020 on a final basis.

For PBR Utilities, the impact of the changes to the allowed ROE and capital structure resulting from the 2018 GCOC Decision applies to the portion of rate base that is funded by revenue provided by mechanisms separate from the (I-X) formula.

In December 2018, the AUC initiated a new proceeding to consider establishing a formula-based approach to setting the approved ROE, beginning for the year 2021, and to consider whether any process changes are necessary for determining capital structure in the years in which the ROE formula would be in place.

Utility Asset Disposition Proceedings

In Decision 2011-474 (2011 GCOC Decision), the AUC made statements regarding cost responsibility for stranded assets. The AUC found that stranded assets included utility assets no longer used to provide utility services as a result of extraordinary circumstances. The affected utilities sought leave to appeal the 2011 GCOC Decision to the Alberta Court of Appeal and filed a Review and Variance Application with the AUC. This prompted the AUC to initiate the Utility Asset Disposition (UAD) proceeding to further examine the issues raised by the utilities' concerns.

In November 2013, the AUC issued Decision 2013-417 (UAD Decision) regarding the UAD proceeding. The UAD Decision confirmed that in the AUC's view, utilities were responsible for any gains or losses related to the extraordinary retirement of utility assets. The utilities subsequently sought leave to appeal the UAD Decision to the Alberta Court of Appeal.

The appeals of the 2011 GCOC Decision and the UAD Decision were heard jointly in June 2015. In September 2015, the Alberta Court of Appeal dismissed the appeal (2015 UAD Appeal Decision). The basis for the court's decision was that the AUC should be accorded deference for its conclusions with respect to utility asset disposition matters.

In November 2015, the utilities filed an application with the Supreme Court of Canada seeking leave to appeal the 2015 UAD Appeal Decision. The court dismissed the leave to appeal application in April 2016.

These court decisions have no immediate impact on the Corporation's financial position. However, the Corporation is exposed to the risk that the unrecovered costs associated with utility assets subsequently deemed by the AUC to have been subject to an extraordinary retirement as contemplated by the UAD Decision, including removals from service resulting from sudden obsolescence, will not be recoverable from customers. This exposure persists in the wake of the Government of Alberta's decision to remove portions of Bill 13 *An Act to Secure Alberta's Energy Future* that were intended to address UAD-related risks by legislative means. Currently, the Corporation has no asset retirements considered to be extraordinary.

Electric Distribution System Purchases

If the Corporation and a municipality or an REA come to an agreement to transfer electric distribution system assets to the Corporation, the transfer and purchase is subject to AUC approval and regulatory oversight. The municipality or REA is required to apply to the AUC to cease and discontinue its operations. Concurrently, the Corporation is required to apply to the AUC to alter its electric service area to include the electric service area of the municipality or REA and to obtain approval of the purchase price for the distribution system assets and the related rate treatment.

In 2015, the Corporation was granted AUC approval for and proceeded with acquiring the electric distribution systems of Kingman REA Ltd. and VNM REA Ltd. for $5.1 million and $16.0 million, respectively. In 2016, the AUC initiated a review of its previous ratemaking approvals in respect of these transactions further to a request made by the Office of the Utilities Consumer Advocate.

In October 2017, the AUC issued Decision 21768-D01-2017 in this proceeding, which determined: (i) the Corporation's method to determine the purchase price of both Kingman REA Ltd. and VNM REA Ltd. to be reasonable; (ii) brushing costs associated with facilities' easements for both Kingman REA Ltd. and VNM REA Ltd. be removed from the purchase price; and (iii) the Corporation should apply amortization assumptions that reflect the remaining value of land rights on acquisition in the related compliance filing. Pursuant to this decision, the Corporation decreased net intangible assets and increased cost of sales by $0.5 million in the fourth quarter of 2017 for brushing costs associated with facilities' easements. The Corporation filed a corresponding compliance filing in January 2018.

In June 2018, the AUC issued Decision 23262-D01-2018 in respect of the compliance filing. In the decision, the AUC confirmed the Corporation's compliance with earlier directions and approved the Corporation's amortization assumptions for land rights for ratemaking purposes.

In July 2016, the Municipality of Crowsnest Pass (CNP) decided to cease operating its electric distribution system and transfer it to the Corporation for $3.7 million, plus GST. The necessary applications were then filed with the AUC. In December 2016, the AUC suspended its consideration of the CNP transfer application pending the determination of its review of the Kingman REA Ltd. and VNM REA Ltd. transactions. On October 27, 2017, the AUC re-commenced this proceeding subsequent to the issuance of Decision 21768-D01-2017. In Decision 21785-D01-2018, the AUC issued the facilities approvals required to support the transfer of the CNP distribution system assets to the Corporation. However, the AUC declined to provide final ratemaking approvals for the entirety of the submitted purchase price pending completion of a compliance filing. The Corporation made the required compliance filing in October 2018.

In the second quarter of 2018, FortisAlberta and the Town of Fort MacLeod filed applications for the facilities approvals required to support a transfer of electric distribution system assets from the municipality to the Corporation. FortisAlberta filed a second application for AUC ratemaking approval of the $4.8 million purchase price in October of 2018.

In December 2018, the AUC issued a letter announcing the initiation of a generic proceeding to establish the rate treatment methodology in respect of distribution system purchases by distribution utilities under 2018 to 2022 PBR plans. Pending the outcome of the generic proceeding, the AUC suspended the proceedings for both the CNP system and the Fort Macleod system.

Electric Distribution System Inquiry

On December 6, 2018, the AUC issued Bulletin 2018-17, which initiated an inquiry into various matters relating to the continuing evolution of the electric distribution grid in Alberta. The AUC has requested comments from stakeholders, including the Corporation, regarding the specific scope of the inquiry and the processes that will be followed.

In Bulletin 2018-17, the AUC stated that "[T]he purpose of the inquiry is to map out the key issues related to the future of the electric distribution grid, to aid in developing the necessary regulatory framework to accommodate the evolution of the electric system." Information provided by the AUC indicates that the topics to be covered in the inquiry will include, but not necessarily be limited to: technological requirements and impacts on system planning, the role of regulated electric distribution service providers in grid modernization, and the means by which the distribution system can evolve to provide appropriate price signals to participating stakeholders. The electric distribution system inquiry is expected to be ongoing throughout 2019.

2018 Independent System Operator (ISO) Tariff Application

In 2018, the Corporation participated in an application brought before the AESO for approval of the AESO's 2018 ISO tariff. FortisAlberta's participation in this proceeding, which is expected to extend throughout the first half of 2019, is directed towards addressing matters relating to the future application of the AESO's Customer Contribution Policy to the Corporation and the AESO's current transmission cost allocation practices.

MARKET FOR SECURITIES

None of the issued and outstanding securities of the Corporation, including the Debentures, are listed on any exchange.

DIVIDEND POLICY

The following table summarizes the cash dividends declared at the discretion of the Board for the past three years on the Corporation's Class "A" Common Shares. Dividends were paid in four equal instalments in February, May, August and November each year, with the exception of 2016. In 2016, the AUC adjusted the Corporation's capital structure for ratemaking purposes from 60% debt and 40% equity to 63% debt and 37% equity. To achieve the reduction in equity financing of the Corporation's regulated operations a $90.0 million dividend was paid to Fortis in the fourth quarter of 2016.

	Dividends Declared and Paid (Millions)		
Share Capital	2018	2017	2016
Class "A" Common Shares	70	65	138.75

Certain of the Corporation's debt covenants contain restrictions on the payment of dividends if consolidated debt exceeds 75% of the Corporation's consolidated capitalization ratio, which is based on the Corporation's total capital structure. Certain further restrictions apply on dividends that are not in the ordinary course of business. The Corporation remains in compliance with these covenants.

DESCRIPTION OF CAPITAL STRUCTURE

GENERAL DESCRIPTION

The Corporation has authorized share capital consisting of an unlimited number of Common Shares, Class "A" Common Shares and First Preferred Shares. The holders of the Common Shares are entitled to receive notice of, and to attend, all annual and special meetings of the shareholders of the Corporation and to one vote in respect of each Common Share held at all such meetings. The holders of the Class "A" Common Shares are entitled to receive notice of, and to attend, all annual and special meetings of the shareholders of the Corporation and to one vote in respect of each Class "A" Common Share held at all such meetings, other than a meeting of the First Preferred Shares, as a class. The holders of the First Preferred Shares as a class are not entitled to receive notice of, to attend, nor to vote at any meeting of the shareholders of the Corporation, other than those meetings called for the purpose of authorizing the voluntary liquidation and dissolution of the Corporation.

The issued and outstanding capital of FortisAlberta consists of 63 Class "A" Common Shares with no par value. There are no Common Shares or First Preferred Shares outstanding. Fortis Alberta Holdings Inc., the Corporation's parent company and an indirect, wholly-owned subsidiary of Fortis, owns all the issued and outstanding Class "A" Common Shares of the Corporation.

RATINGS

The following information relating to the Corporation's credit ratings is provided as it relates to the Corporation's financing costs and liquidity. Specifically, credit ratings affect the Corporation's ability to obtain short-term and long-term financing and the cost of such financing. A reduction in the current ratings on the Corporation's debt by its rating agencies or a negative change in the ratings outlook could adversely affect the Corporation's cost of financing and its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Corporation's ability to, and the associated costs of, entering into normal course derivative or hedging transactions or its ability to maintain ordinary course contracts with customers and suppliers on acceptable terms.

The Corporation's credit ratings as at March 27, 2019 are set out in the following table:

Rating Agency	Rating/Outlook
DBRS	A (low), Stable Trend
S&P	A-, Negative

The ratings are not recommendations to purchase, hold or sell Debentures, because ratings do not comment on the Corporation's Debentures market price or suitability for a particular investor. The Corporation understands that ratings are based on, among other things, information furnished to the rating agencies by the Corporation and information obtained by the rating agencies from public sources. Ratings may be changed, suspended or withdrawn at any time by the rating agencies.

DBRS long-term debt ratings are on a rating scale that ranges from AAA to C, which represents the range from highest to lowest quality of such securities. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not take factors such as pricing or market risk into consideration and the ratings are expected to be used by purchasers as one part of their investment decision. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of A by DBRS is in the middle of three subcategories within the third highest of ten major categories; such rating is assigned to debt instruments considered to be of satisfactory credit quality and for which protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated entities. The assignment of a “(high)” or “(low)” modifier within each rating category indicates relative standing within such category. DBRS ratings trends provide guidance regarding the outlook for the rating. A Positive Trend represents an indication that there is a greater likelihood that the rating could change in the future than would be the case if a Stable Trend was assigned.

S&P’s long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. S&P states that its long-term debt rating evaluates the obligor's capacity and willingness to meet its financial commitments as they come due. Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. According to S&P, a rating of A by S&P is the third highest of ten major categories. An obligor rated 'A' has strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories. The assignment of a “(+)” or “(-)” modifier within each rating category indicates relative standing within such category. S&P's rating outlook indicates their view regarding the potential direction of a long-term credit rating over the intermediate term, typically six months to two years. In determining a rating outlook, consideration is given to any changes in the economic or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action. Positive means that a rating may be raised. Stable means that a rating is not likely to change, whereas Negative means that a rating may be lowered.

FortisAlberta has paid each of DBRS and S&P their customary fees in connection with the provisions of the above ratings. FortisAlberta has not made any payment to DBRS or S&P in the past two years for services unrelated to the provision of such ratings.

RISK FACTORS

The Corporation is subject to a variety of risks and uncertainties that may have material and adverse effects, financial or otherwise, on the results of the Corporation’s operations.

REGULATORY APPROVAL AND RATE ORDERS

The regulated operations of the Corporation are subject to the uncertainties faced by regulated utility companies. Those uncertainties include whether customer rates approved by the AUC will provide a reasonable opportunity to the Corporation for recovery of the estimated costs of providing utility services, including a fair return on the portion of approved rate base funded by the equity component of the capital structure, on a timely basis. The ability of the Corporation to recover the actual costs of providing services and to earn the approved ROE depends on the Corporation’s ability to operate using the revenues provided through regulatory mechanisms.

Through the regulatory process, the AUC approves the allowed ROE for rate-making purposes and capital structure. Regulatory treatment that allows the Corporation to earn a fair risk-adjusted rate of return, comparable to that available on alternative investments of similar risk, is essential for maintaining access to capital.

Effective January 1, 2013, distribution utilities in Alberta, including the Corporation, are regulated under PBR. Following the first five-year PBR term ending in 2017, a second five-year term commenced in 2018.

The fundamental risk faced by all regulated utilities, that regulator-approved rates will not provide sufficient revenue to recover all of the costs associated with providing service, still exists under PBR. During the PBR term, the formula that determines annual customer rates exposes the Corporation to the following specific risks: (i) that the Corporation will experience inflationary increases in excess of the inflationary factor set by the AUC in the formula; (ii) that the Corporation will be unable to achieve sufficient productivity gains over the PBR term to maintain, or improve, returns; (iii) that the costs related to the Corporation’s capital expenditures will be in excess of that provided for in the base formula and that those excess capital expenditures will not qualify, or be approved, for incremental capital funding where necessary; and (iv) that material unforeseen costs will be incurred and that they will not qualify, or be approved, as a Z factor.

Capital expenditures, including the cost of replacement or upgrades to existing facilities and the addition of new facilities, continue to require the approval of the AUC for inclusion in rate base. There is no assurance that the Corporation will receive regulatory orders in a timely manner, and the Corporation may incur costs prior to having approved rates. A failure to obtain approval of capital expenditures may adversely affect the Corporation's results of operations or financial position.

In the interest of regulatory efficiency, the AUC can employ generic proceedings to address regulatory matters that impact multiple utilities. While generic proceedings allow for regulatory efficiencies, there is the risk that a collective result will not adequately address individual utility circumstances.

The Corporation is exposed to the risk that the unrecovered costs associated with utility assets subsequently deemed by the AUC to have been subject to an extraordinary retirement, including removals from service resulting from sudden obsolescence, will not be recoverable from customers. This exposure persists in the wake of the AUC's Decision 2013-417 (UAD Decision) and the Government of Alberta's decision to remove portions of Bill 13 *An Act to Secure Alberta's Energy Future*, which were intended to address utility asset disposition related risks by legislative means. Currently, the Corporation has no asset retirements considered to be extraordinary.

As an owner of an electricity distribution network under the *EUA*, the Corporation is required to act, or to authorize a substitute party to act, as a provider of electricity services, including the wholesale purchase and retail sale of electricity, to eligible customers under a regulated rate and to appoint a retailer as default supplier to provide electricity services to customers otherwise unable to obtain electricity services. In order to remain solely a distribution utility, the Corporation appointed EPCOR as its RRO provider in 2000. As a result of this appointment, EPCOR assumed all of the Corporation's contractual rights and obligations in respect of the provision of these services. In the unlikely event that EPCOR is unable or unwilling to act as regulated rate provider or as default supplier, and no other party is willing to act as regulated rate provider or as default supplier, the Corporation would be required under the *EUA* to act as a provider of electricity services to eligible customers under a regulated rate or to provide electricity services to customers otherwise unable to obtain electricity services. If the Corporation could not secure outsourcing for these functions, the Corporation would be required to administer these retail responsibilities by adding necessary staff, facilities, equipment, or all three.

LOSS OF SERVICE AREAS

The Corporation serves customers residing within various municipalities throughout its service areas. Periodically, municipal governments in Alberta give consideration to creating their own electricity distribution utilities by purchasing the assets of the Corporation located within their municipal boundaries. Upon the termination of, or in the absence of, a franchise agreement, a municipality has the right, subject to AUC approval, to purchase the Corporation's assets within its municipal boundaries pursuant to the *MGA*, with the price based upon replacement cost less depreciation and to be as agreed to by the Corporation and the municipality. Failing an agreement between the parties, the price is to be determined by the AUC.

Additionally, under the *HEEA*, if a municipality that owns an electricity distribution system expands its boundaries, the municipality can acquire the Corporation's assets in the annexed area. In such circumstances, the *HEEA* provides that the AUC may determine that the municipality should pay compensation to the Corporation for any facilities transferred on the basis of replacement cost less depreciation. Given the historical population and economic growth of Alberta and its municipalities, the Corporation is occasionally affected by transactions of this type.

Within certain portions of the Corporation's service areas that overlap with REAs, eligible members have the right to obtain electric distribution service from their REA as defined in the integrated operating agreements between the Corporation and the REA. In general, eligibility criteria limited the provision of service to REA members whose land is used for agricultural activity. As a result of the outcome of an arbitration completed in 2016 between the Corporation and EQUS REA Ltd. (EQUS), an integrated operating agreement was established between the Corporation and EQUS. The integrated operating agreement does not contain eligibility criteria. As currently framed, the new integrated operating agreement with EQUS may result in persons choosing to receive service from EQUS in overlapping areas, where they previously would have been obligated to take service beyond agricultural from the Corporation. The consequence to the Corporation of a municipality purchasing its distribution assets or the loss of the opportunity to serve customers receiving distribution services from an REA would be a reduction in revenue associated with the loss of these customers and the consequent transfer of assets.

POLITICAL RISK

The regulatory framework under which the Corporation operates is impacted by significant shifts in government policy and/or changes in government, which creates uncertainty about public policy priorities and directions, particularly around electricity and environmental issues. The regulations that govern the competitive wholesale and retail electricity markets in Alberta continue to evolve and the extent to which the Government of Alberta may participate in, and make adjustments to, the regulations cannot be foreseen. If significant changes were to occur in these regulations it could adversely affect the ability of the Corporation to recover its costs or to earn a reasonable return on its capital.

ECONOMIC CONDITIONS

Alberta's economy is impacted by a number of factors including the level of oil and gas activity in the province, which is influenced by the market prices of oil and gas. A general and extended decline in Alberta's economy, or in the Corporation's service areas in particular, would be expected to have the effect of reducing requests for electricity service over time. A decline in Alberta's economy and increased electricity costs due to the renewable energy increases, the phasing out of coal fueled generation and the upcoming capacity market also may result in existing customers reviewing and reducing their demand and energy consumption. Significantly reduced requests for services in the Corporation's service areas and existing customers reduced demand and energy consumption could materially reduce the capital spending forecast, specifically related to customer growth, externally driven and AESO contributions. A reduction in capital spending would, in turn, affect the Corporation's rate base and earnings growth, and related revenues from customers.

ENVIRONMENTAL RISKS

The Corporation is subject to numerous laws, regulations and guidelines governing the generation, management, storage, transportation, recycling and disposal of hazardous substances and other waste materials, and otherwise relating to the protection of the environment. Environmental damages and associated costs could arise due to a variety of events, including the impact of severe weather on the Corporation's facilities, human error or misconduct, or equipment failure. Costs arising from compliance with such environmental laws, regulations and guidelines may become material to the Corporation. In addition, the process of obtaining environmental permits and approvals, including any necessary environmental assessments, can be lengthy, contentious and expensive. The Corporation would seek to recover in customer rates the costs associated with environmental protection, compliance and damage; however, there is no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs may have a material adverse effect on the Corporation's results of operations, cash flow and financial position.

The Corporation is also subject to the risk of contamination of air, soil and water primarily related to the use and/or disposal of petroleum-based products, mainly transformer, hydraulic and lubricating oil, in the Corporation's day-to-day operating and maintenance activities. Contamination typically occurs through the accidental release of transformer or lubricating oils either through equipment failure or human error. The Corporation could be found to be responsible for remediation of contaminated properties, whether or not such contamination was actually caused by the Corporation. Environmental laws make owners, operators and senior management subject to prosecution or administrative action for breaches of environmental laws, including the failure to obtain regulatory approvals. Changes in environmental laws governing contamination could lead to significant increases in costs to the Corporation. To identify, mitigate and monitor environmental performance the Corporation has established an Environmental Management System (EMS). The Corporation's EMS is consistent with the principles of the ISO 14001 standard. The Corporation has an independent external audit completed every three years of the EMS to ensure compliance with ISO 14001. The most recent external EMS audit was completed in the third quarter of 2018. As at December 31, 2018, there were no environmental liabilities recorded in the Corporation's financial statements and there were no unrecorded environmental liabilities known to management.

Electricity distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on and lightning strikes to distribution lines or equipment and other causes. Risks associated with fire damage are related to weather, the extent of forestation and grassland cover, habitation and third-party facilities located on or near the land on which the facilities are situated. The Corporation may become liable for fire suppression costs, regeneration and timber value costs and third-party claims in connection with fires on land where facilities are located if it is found that such facilities were the cause of a fire, and such claims, if successful, could be material.

The Corporation has a wildfire agreement with the Government of Alberta, which limits the Corporation's liability for the Crown's forest fire suppression costs in the *FPA*. The agreement allows the Corporation to limit its liability to 25% of the fire suppression costs to a maximum of $100,000 per incident following approval by the Crown of the Corporation's annual wildfire management plan for wildfire prevention. Absent this approval, or work not completed as per the annual wildfire management plan, the Corporation's liability is limited to 50% of the fire suppression costs to a maximum of $200,000 per incident. The Corporation's wildfire management plan is presented for approval annually, prior to the wildfire season, with the most recent approval being received in March 2018 and effective April 1, 2018.

While the Corporation maintains insurance for costs associated with fires, including fire suppression costs and liability for third-party claims, the insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions, and there can be no assurance that the liabilities that may be incurred by the Corporation will be covered by its insurance. For further information, refer to the "Risk Factors – Insurance Coverage Risk" section of this AIF.

CAPITAL RESOURCES AND LIQUIDITY

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Funds generated from operations after payment of expected expenses, including interest payments on any outstanding debt, will not be sufficient to fund all anticipated capital expenditures and the repayment of all outstanding liabilities when due. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including regulatory approval or exemption, the regulatory environment in Alberta, the results of operations and financial position of the Corporation and Fortis, conditions in the capital and bank credit markets, the credit ratings assigned by rating agencies, and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund capital expenditures and repay existing debt.

OPERATING AND MAINTENANCE RISK

The Corporation is required to operate and maintain its electric distribution system in a manner that enables the provision of safe and reliable utility service to customers and that will ensure the safety of employees, contractors and the general public. An inability to discharge these responsibilities may result in material adverse consequences for the Corporation.

The Corporation's distribution assets require normal course maintenance, improvement and replacement in accordance with applicable utility standards and engineering practices. The Corporation determines expenditures that must be made to maintain and replace equipment in order to ensure the continued safe and reliable operation of its distribution assets. An inability on the part of the Corporation to perform required work in a timely manner may result in increased costs and service disruptions for customers.

The Corporation continually develops expenditure programs and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its distribution assets. The Corporation's analysis is based on assumptions as to the costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters, all of which are uncertain. If the Corporation's actual costs to provide utility services exceed AUC approved customer rates these additional costs may not be recoverable through rates. An inability to recover these additional costs could have a material adverse effect on the financial condition and results of operations of the Corporation.

WEATHER

The Corporation's physical assets are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed and are operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. In addition, many of the physical assets are located in remote areas that makes it more difficult to perform maintenance and repairs if such assets are damaged. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute electricity to them in accordance with the Corporation's contractual obligations.

In the event of a material uninsured loss or liability caused by severe weather conditions or other acts of nature, the Corporation may apply to the AUC to recover such losses through customer rates. However, in light of the AUC's UAD Decision there is a risk that such losses could be deemed an "extraordinary retirement" and that any unrecovered costs associated with the loss of utility assets due to severe weather conditions or other acts of nature would not be recoverable from customers.

INFORMATION AND OPERATIONS TECHNOLOGY AND CYBERSECURITY RISK

The Corporation's ability to operate effectively is dependent upon developing and maintaining information systems and infrastructure that support the operation of its distribution facilities, provide the electricity market with billing and load settlement information and support the financial and general operating aspects of the business.

Exposure of the Corporation's information and operations technology systems to external threats poses a risk to the security of these systems and information. Such cybersecurity threats include unauthorized access to information and operations technology systems due to hacking, viruses and other causes that can result in service disruptions, acts of war or terrorism, system failures and the deliberate or inadvertent disclosure of confidential business, employee and customer information.

The Corporation is required to protect information and operations technology systems and to safeguard the confidentiality of employee and customer information in order to operate effectively and to comply with regulatory and legal requirements. The Corporation has security measures, systems, policies and controls designed to protect and secure the integrity of its information and operations technology systems; however, cybersecurity threats frequently change and require ongoing monitoring and detection capabilities. In the event the Corporation's information and operations technology security measures are breached, it could experience service disruptions, property damage, corruption or unavailability of critical data or confidential employee and customer information. A material breach could adversely affect the financial performance of the Corporation, its reputation and standing with customers, regulators, or financial markets and expose it to claims for third-party damage. The financial impact of a material breach in cybersecurity, act of war or terrorism could be material and may not be covered by insurance policies or, in the case of utilities, through regulatory recovery.

Cybersecurity breaches, acts of war or terrorism, grid disturbances or security breaches involving the misappropriation of sensitive, confidential and proprietary customer, employee, financial or system operating information could significantly disrupt the Corporation's business operations and have an adverse effect on its reputation.

INSURANCE COVERAGE RISK

The Corporation maintains insurance coverage at all times with respect to certain potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers, as it considers appropriate, taking into account relevant factors, including the practices of owners of similar assets and operations. However, the Corporation's distribution assets are not covered by insurance, as is customary in North America, as the coverage is not readily available nor is the cost of the coverage considered economically viable.

It is anticipated that existing insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available on terms as favourable as the Corporation's existing arrangements, or that insurance companies will meet their obligation to pay claims. Further, there can be no assurance that available insurance will cover all losses or liabilities that may arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by the Corporation, or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's results of operations, cash flow, and financial position.

In the event of a material uninsured loss or liability, the Corporation may apply to the AUC to recover such losses through customer rates. However, in light of the AUC's UAD Decision there is a risk that such losses could be deemed an "extraordinary retirement" and that any unrecovered costs associated with the loss of utility assets would not be recoverable from customers.

PERMITS AND RIGHTS-OF-WAY

The acquisition, ownership and operation of distribution assets requires numerous permits, approvals and certificates from federal, provincial and municipal government agencies and from First Nations. The Corporation may not be able to obtain or maintain all required approvals. If there is a delay in obtaining any required approval, or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the operation of its assets and the distribution of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

It is frequently necessary for portions of the Corporation's power lines to cross certain private and public lands. In those cases, the Corporation must secure permission to cross such lands through easements or rights-of-way. The inability to secure such easements or rights-of-way could increase the costs to provide distribution service beyond amounts forecast in customer rates.

Certain of the Corporation's distribution assets may be located on land that is not known to be deeded and for which it has not acquired appropriate rights. In addition, the Corporation has distribution assets on First Nations' lands, for which access permits are held by TransAlta. In order for the Corporation to acquire these access permits, both the individual First Nations and the Department of Aboriginal Affairs and Northern Development Canada must grant approval. The Corporation may not be able to acquire the access permits from TransAlta and may be unable to negotiate land usage agreements with property owners or, if negotiated, such agreements may be on terms that are less than favourable to the Corporation and, therefore, may have a material adverse effect on the Corporation.

LABOUR RELATIONS

Approximately 80% of the employees of the Corporation are members of the UUWA. The Corporation considers its relationships with the UUWA to be satisfactory; however, there can be no assurance that current relations will continue in future negotiations or that the terms under the current agreement will, upon its expiry, be renewed at all or on terms favourable to the Corporation. The inability to maintain a collective bargaining agreement on acceptable terms could result in increased labour costs or costs associated with service interruptions arising from labour disputes not provided for in customer rates, which could have a material adverse effect on the Corporation's results of operations, cash flow, and financial position.

Prior to the end of 2017, the Corporation and the UUWA negotiated the most recent three-year collective agreement. In February 2018, the agreement was ratified by 86% of the members who voted. The current collective agreement with the UUWA expires on December 31, 2020.

HUMAN RESOURCES

The Corporation's ability to deliver service in a cost-effective manner is dependent on the ability of the Corporation to attract, develop and retain a skilled workforce. Given the demographics of the Corporation's workforce, there will likely be an increase in retirement from the critical workforce segments in future years. Meeting the capital program and customer expectations could be challenging if the Corporation does not continue to attract and retain qualified personnel, to hold office until they are re-appointed by Fortis Alberta Holdings Inc. in accordance with applicable corporate law.

DIRECTORS AND OFFICERS

DIRECTORS

The following table sets out the name, municipality of residence, term of office and number of Fortis shares beneficially owned, directly or indirectly, or controlled or directed, for each of the directors of FortisAlberta as at December 31, 2018. Also included are principal occupations within the five preceding years from the date hereof. All directors are elected annually.

Name and Municipality of Residence	Director Since	Fortis Shares Beneficially Owned, Directly or Indirectly, or Controlled or Directed	Principal Occupation or Employment for Past Five Years	
Linda Apsey Brighton, Michigan USA	2017	53,889 shares	***ITC Holding Corp.*** *(An independent electricity transmission company)* *November 2016 to Present*	President and Chief Executive Officer
			ITC Holding Corp. *(An independent electricity transmission company)* *June 2007 to November 2016*	Executive Vice President
Ross Bricker Disbury, Alberta Canada	2017	1,025 shares	***Westcott Ventures Inc.*** *(A business management consulting company)* *June 2016 to Present*	Managing Partner
Nora Duke St. John's, Newfoundland Canada	2017	103,917 shares	***Fortis Inc.*** *(A gas and electric distribution utility holding company)* *December 2017 to Present*	Executive Vice President, Sustainability and Chief Human Resource Officer
			Fortis Properties Corporation *(A diversified company with operations in hotels and commercial real estate until 2015)* *May 2007 to August 2015*	President and Chief Executive Officer

Name and Municipality of Residence	Director Since	Fortis Shares Beneficially Owned, Directly or Indirectly, or Controlled or Directed	Principal Occupation or Employment for Past Five Years	
Bill H. Giebelhaus Sherwood Park, Alberta Canada	2013	1,200 shares	***Corporate Director*** *April 2013 to Present* ***WHG Investments Ltd.*** *(An investment and real estate development company)* *1985 to Present* ***Clark Builders*** *(An international construction services company)* *1978 to March 2016*	Director Chief Operating Officer
Mona Hale Edmonton, Alberta Canada	2016	1,000 shares	***Finning International*** *(A Distributor of Caterpillar products and support services company)* *2011 to Present*	Senior Vice President, Finance
David G. Hutchens Tucson, Arizona USA	2016	25,657 shares	***Tucson Electric Power (TEP) and its parent Company, UNS Energy Corporation*** *(An electric utility company)* *2011 to Present*	President and Chief Executive Officer
Susan M. MacKenzie Calgary, Alberta Canada	2014	1,465 shares	***Corporate Director*** *2011 to Present* ***Independent Consultant*** *September 2010 to Present*	
Michael Mosher Chestermere, Alberta Canada	2018	3,167 shares	***FortisAlberta*** *September 2018 to Present* ***Central Hudson Gas & Electric Corporation*** *April 2016 to September 2018* ***Central Hudson Gas & Electric Corporation*** *June 2006 to April 2016*	President and Chief Executive Officer President and Chief Executive Officer Vice President, Regulatory Affairs

Name and Municipality of Residence	Director Since	Fortis Shares Beneficially Owned, Directly or Indirectly, or Controlled or Directed	Principal Occupation or Employment for Past Five Years	
Ray Price Acme, Alberta Canada	2018	NIL	***Sunterra Group of Companies*** *1979 to Present*	President
Shelley Ralston Red Deer County, Alberta Canada	2015	350 shares	***Red Deer College*** *(A public comprehensive community college)* *October 2017 to Present* ***Xerox Canada*** *(A document technology and services company)* *March 2010 to March 2017*	Vice President, Corporate Director of Talent and Culture
Roger D. Thomas Calgary, Alberta Canada	2013	1,500 shares	***Corporate Director*** *July 2009 to Present*	

OFFICERS

The following table sets out the name and municipality of residence of each of the officers of FortisAlberta as at December 31, 2018 and indicates the office(s) held and principal occupations within the five preceding years from the date hereof.

Name and Municipality of Residence	**Office Held**	**Principal Occupation or Employment for Past Five Years**	
Michael Mosher Chestermere, Alberta Canada	President and Chief Executive Officer	***FortisAlberta*** *September 2018 to Present*	President and Chief Executive Officer
		Central Hudson Gas & Electric Corporation *April 2016 to September 2018*	President and Chief Executive Officer
		Central Hudson Gas & Electric Corporation *June 2006 to April 2016*	Vice President, Regulatory Affairs
Janine Sullivan Calgary, Alberta Canada	Vice President, Finance and Chief Financial Officer	***FortisAlberta*** *June 2015 to Present*	Vice President, Finance and Chief Financial Officer
		FortisAlberta *September 2006 to June 2015*	Director, Regulatory and Financial Planning
Cam Aplin Airdrie, Alberta Canada	Vice President, Operations	***FortisAlberta*** *May 2011 to Present*	Vice President, Operations
Tamara Day Calgary, Alberta Canada	General Counsel Corporate Secretary and Compliance Officer	***FortisAlberta*** *July 2018 to Present*	General Counsel, Compliance Officer and Corporate Secretary
		FortisAlberta *November 2015 to July 2018*	Director, Legal Services, Compliance Officer and Corporate Secretary
		BHP Billiton Ltd. *(A multinational mining, metals and petroleum company)* *September 2011 to November 2016*	Associate General Counsel
Todd Dettling Calgary, Alberta Canada	Vice President, Customer Service	***FortisAlberta*** *July 2017 to Present*	Vice President, Customer Service
		FortisAlberta *July 2016 to July 2017*	Director, Grid Connections
		FortisAlberta *January 2012 to July 2016*	Director, Project Management
Curtis Eck Airdrie, Alberta Canada	Vice President, Engineering	***FortisAlberta*** *July 2014 to Present*	Vice President, Engineering
		FortisAlberta *April 2014 to June 2014*	Director, Engineering
		FortisAlberta *January 2012 to March 2014*	Director, Operations

Heather Speers Calgary, Alberta Canada	Vice President, Human Resources	***FortisAlberta*** *May 2018 to Present* ***FortisAlberta*** *June 2016 to May 2018* ***FortisAlberta*** *Oct 2014 to June 2016* ***FortisAlberta*** *February 2010 to October 2014*	Vice President, Human Resources Director, Human Resources Manager, Talent Management Manager, Contact Centre
Rob Tisdale Calgary, Alberta Canada	Vice President, Customer and Information Services	***FortisAlberta*** *June 2015 to Present* ***FortisAlberta*** *July 2014 to June 2015* ***FortisAlberta*** *December 2008 to July 2014*	Vice President, Customer and Information Services Vice President, Information Technology Director, Information Technology

The directors and officers of FortisAlberta, as a group, do not beneficially own, directly or indirectly, or exercise control or direction over any issued and outstanding shares of the Corporation. The directors and officers of FortisAlberta, as a group, beneficially own, directly or indirectly, or exercise control or direction over less than 1% of the issued and outstanding Fortis shares.

COMMITTEES

The Board has two standing committees: the Audit, Risk and Environment Committee and the Governance and Human Resources Committee.

Audit, Risk and Environment Committee – The ARE Committee's mandate is to assist the Board in discharging its fiduciary duties to the Corporation relating to financial reporting and disclosure. The Committee is charged with: (i) reviewing all published financial statements and reports that require Board approval; (ii) the operation of the pension plan and the financial performance of the pension plan assets; (iii) the adequacy of the Corporation's internal control systems, and corporate policies relating to code of conduct; (iv) the environment and risk/insurance management; and (v) the preservation of assets.

The members of the ARE Committee as at December 31, 2018 were Mona Hale (Chair), Roger Thomas, David Hutchens, Ross Bricker, and Ray Price, each of whom is independent and financially literate, as such terms are defined in National Instrument 52-110 Audit Committees.

The Corporation recognizes the importance of appointing knowledgeable and experienced individuals to the ARE Committee. Committee composition includes members that have the necessary background and skills to provide effective oversight of external audit and the accounting, financial reporting and disclosure processes on behalf of the Board. All Committee members have significant senior leadership experience. More specifically, Mr. Thomas, Mr. Bricker, Ms. Hale, Mr. Hutchens, and Mr. Price each have direct operational or functional experience overseeing accounting and finances at organizations similar in complexity to FortisAlberta.

In fulfilling its duties and responsibilities with respect to external audit and accounting matters, the ARE Committee seeks periodic input, advice, and recommendations from various sources, including the Board, Executive Officers, the internal auditor and external auditors. The ARE Committee retains discretion in its decisions and is not bound by the input, advice, or recommendations received from the external independent consultants.

The charter of the ARE Committee is attached hereto as Appendix "A".

Governance and Human Resources Committee – The GHR Committee's mandate is to review, report and make recommendations to the Board on: (i) corporate governance policies; (ii) compensation, benefits and perquisites of Executive Officers of the Corporation; (iii) the respective duties of the Chair of the Board, the Chief Executive Officer, the Board and other officers of the Corporation; (iv) assessing the effectiveness of the Board and proposing new nominees for election or appointment to the Board; and (v) reporting to the Corporation's shareholders regarding corporate governance and executive compensation matters.

The members of the GHR Committee as at December 31, 2018 were Susan MacKenzie (Chair), Bill Giebelhaus, Shelley Ralston, Linda Apsey and Nora Duke.

The Corporation recognizes the importance of appointing knowledgeable and experienced individuals to the GHR Committee. Committee composition includes members that have the necessary background and skills to provide effective oversight of corporate governance and executive compensation, including adherence with sound risk management principles. All Committee members have significant senior leadership experience. More specifically, Mr. Giebelhaus, Ms. MacKenzie, Ms. Apsey, Ms. Duke and Ms. Ralston each have direct operational or functional experience overseeing compensation at organizations similar in complexity to FortisAlberta.

In fulfilling its duties and responsibilities with respect to executive compensation, the GHR Committee seeks periodic input, advice, and recommendations from various sources, including the Board, Executive Officers, and the executive compensation consultants. The GHR Committee retains discretion in its executive compensation decisions and is not bound by the input, advice, or recommendations received from the external independent consultants.

CONFLICTS OF INTEREST

The directors and officers of Corporation are engaged in, and will continue to engage in, other activities in the industries in which the Corporation operates and, as a result of these and other activities, the directors and officers of the Corporation may become subject to conflicts of interest. The *ABCA* provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his or her interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the *ABCA*. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the *ABCA*. As at the date hereof, the Corporation is not aware of any existing or potential material conflicts of interest between the Corporation and any director or officer of the Corporation.

REPORT ON EXECUTIVE COMPENSATION

It is the responsibility of the GHR Committee to review, recommend and administer the compensation policies in respect of the Corporation's Executive Officers. The GHR Committee's recommendations as to annual base salary, short-term incentives, grants under the Performance Share Unit (PSU) Plan and grants under the Restricted Share Unit (RSU) Plan are submitted to the Board of the Corporation for approval. Proposed grants of stock options to the Corporation's Executive Officers under the Stock Option Plan of Fortis are submitted by the Corporation's Board to the Human Resources Committee of the Board of Directors of Fortis for approval.

The Corporation's executive compensation policies are designed to provide competitive levels of compensation, a significant portion of which is dependent upon individual and corporate performance. The GHR Committee recognizes the need to provide a total compensation package that will attract and retain qualified and experienced Executive Officers as well as align the compensation level of each Executive Officer to that officer's level of responsibility. The GHR Committee regularly reviews survey data gathered by independent professional compensation consultants in respect of a wide group of comparable Canadian commercial industrial companies.

The Corporation has a policy of compensating Executive Officers at approximately the median, 50th percentile of comparable Canadian commercial industrial companies. For clarity, this reference group does not include organizations in the financial service and broader public sectors, and includes organizations from the energy, mining and manufacturing sectors. Annually, the GHR Committee uses the compensation data from this reference group to compare each Executive Officer to corresponding positions within the reference group. This framework serves as a guide for the GHR Committee's deliberations. The actual total compensation or amount of each compensation component for an individual Executive Officer may be more or less than the median amount.

Total annual compensation for the Executive Officers is composed primarily of the following components:

- annual base salary;
- an annual incentive plan that provides the opportunity to earn a cash bonus;
- share-based awards that provide the opportunity to earn cash based on performance metrics at the end of a three-year period (PSU Plan);
- share-based awards that provide the opportunity to earn cash at the end of a three-year period (RSU Plan);
- options-based awards to purchase Common Shares of Fortis; and
- pension arrangements.

Total annual compensation for the Executive Officers involves a significant proportion that is at-risk due to the use of short-term, medium-term and long-term incentive components. In 2018, approximately 65% of the President and Chief Executive Officer's total annual compensation, approximately 50% of the Vice President, Finance and Chief Financial Officer, and the Vice President, Operations and approximately 45% of the other Vice Presidents' total annual compensation was to be at-risk. Total annual compensation includes both the cash compensation paid to the Executive Officers in the year and the estimated compensation for the medium and long-term incentive components. The estimated value of the option-based long-term incentive component is determined using the binomial pricing model at the date of grant of options.

The executive compensation regime is structured in a manner that recognizes the greater ability of the President and Chief Executive Officer to affect corporate performance by making a greater portion of that individual's compensation dependent upon corporate performance.

COMPENSATION REVIEW FRAMEWORK

Annual Review

FortisAlberta monitors, reviews, and evaluates its executive compensation program annually to ensure that it provides reasonable compensation ranges at appropriate levels and remains competitive and effective.

As part of the annual review process, the Corporation engages Korn Ferry, its primary compensation consultant, to provide comparative analyses of market compensation data reflecting the pay levels and practices of Canadian commercial industrial companies. Using this data, a detailed review of FortisAlberta's competitive compensation positioning against its peer group is undertaken. Korn Ferry provides Fortis and its subsidiaries' management preliminary recommendations on the basis of pay competitiveness, emerging market trends and best practices. From time to time, the Corporation also receives general market and job specific compensation data from Towers Watson for its officers.

Management then takes into account the corporate performance against pre-determined objectives and together with the Chief Executive Officer, recommends a set of new performance objectives for the following year. Individual performance reviews, incentive award payouts, and compensation adjustments, if any, are also determined at this stage. The Chief Executive Officer does not make recommendations to the GHR Committee with respect to his own compensation.

In the final step, the GHR Committee reviews the recommendations set forward by management and the compensation consultants prior to seeking approval from the Board regarding the current year's compensation payouts and the succeeding year's performance objectives. The GHR Committee and the Board may exercise discretion when making compensation decisions in appropriate circumstances and make deviations from the prescribed incentive award formulas, if necessary.

COMPENSATION RISK CONSIDERATIONS

Risk is considered throughout FortisAlberta's annual compensation review processes to ensure that effective control systems are in place to mitigate the perceived risks inherent in the compensation structure. The GHR Committee has identified the following external and internal risk controls within the Corporation's executive compensation program:

External Compensation Risk Mitigating Controls

With respect to the Corporation's regulatory environment, there exists an extensive regulatory framework as well as reporting and approval mechanisms. FortisAlberta's ongoing compliance with existing regulatory requirements and emerging best practices ensure that risks within its compensation program are being continually monitored and controlled.

Internal Compensation Risk Mitigating Controls

The compensation program is designed such that risk is taken into consideration throughout the compensation review process:

Annual Salary	Annual salaries are targeted approximately at market median levels and, as such, do not encourage excessive risk-taking.
Short-Term Incentives	*Board Discretion:* The GHR Committee retains the discretion to make upward or downward adjustments to the prescribed incentive payout formulas and actual payouts based on its assessment of the risk assumed to generate financial results, circumstances that may have influenced individual performance, as well as external factors that may have impacted the Corporation's financial performance. *Award Cap:* Short-term incentives awarded to Executive Officers are capped at 200% of target.
Medium and Long-Term Incentives	*Share and Option Based Awards:* PSUs are awarded to executives to emphasize their ability to affect overall corporate performance. The deferred component of PSUs, RSUs and stock options provides for an appropriate alignment between incentive payouts and the timeline of risks for the Corporation. *Stock Ownership Requirements:* Effective January 1, 2015, Executive Officers are required to beneficially own, directly or indirectly, a minimum number of Fortis shares based on position. For the President and Chief Executive Officer, the minimum shareholding amount is two times their annual base salary, and for all other executives the minimum amount is equal to their annual salary. Minimum share ownership must be achieved within five years of appointment to an eligible position. Any Executive Officer that fails to comply with share ownership requirements will not be eligible for future equity-based compensation awards until the later of; (i) the end of the one year period commencing on the date of such failure, or (ii) such time as the Executive Officer is again in compliance with the share ownership policy. *Anti-Hedging Policy:* The Corporation's Executive Officers are not permitted to hedge against declines in the market value of equity securities received as compensation.

The elements of executive compensation, for which all Executive Officers are eligible, and their respective compensation objectives are set out below:

Compensation Element	Description	Compensation Objectives
Annual Base Salary & Annual Incentive		
Annual Base Salary	- Salary is a market-competitive, fixed level of compensation.	- Retain and attract highly qualified leaders. - Motivates strong business performance.
Annual Incentive Plan	- Combined with salary, the target level of annual incentive provides a market-competitive total cash opportunity. - Annual incentive payout depends on individual and corporate performance.	- Retain and attract highly qualified leaders. - Motivate strong business performance through achievement of short-term objectives. - Simple to communicate and administer. - Compensation dependent on individual and corporate performance.
Mid-term Equity Based Incentive		
Share-Based Awards (PSUs)	- Incentive is based on Fortis' performance over a three-year period against predetermined measures. - The amount of annual grant is determined as a specified percentage of the participant's annual base salary divided by the volume-weighted average price of Fortis' common shares for the five trading days immediately preceding the date of the grant. The grant date is January 1st of each year. - Cash payout upon completion of the three-year performance period.	- Align executive and shareholder interests. - Attract and retain highly qualified leaders. - Encourage strong long-term business performance. - Balance compensation for short and long-term strategic results. - Compensation dependent on corporate performance. - Simple to communicate and administer.
Share-Based Awards (RSUs)	- The amount of annual grant is determined as a specified percentage of the participant's annual base salary divided by the volume-weighted average price of Fortis' common shares for the five trading days immediately preceding the date of the grant. The grant date is January 1st of each year. - Cash payout upon completion of the three-year period.	- Align executive and shareholder interests. - Attract and retain highly qualified leaders. - Balance compensation for short and long-term strategic results. - Simple to communicate and administer.

Stock Options		
Option-based Awards	- Annual equity grants are made in the form of stock options to purchase common shares of Fortis. - Beginning in 2015, the amount of annual grant is determined as a specified percentage of the participant's annual base salary divided by the binomial valuation of Fortis' share price. - Prior to 2015, the amount of annual grant was dependent on the level of the executive and any applicable share ownership guideline. - Options vest over a 4-year period and expire after 7 years (2006 Stock Option Plan) or 10 years (2012 Stock Option Plan).	- Align executive and shareholder interests. - Attract and retain highly qualified leaders. - Motivate strong long-term business performance. - Align long-term interests of officers with those of Fortis shareholders. - Balance compensation for short and long-term strategic results. - Simple to communicate and administer.
Pension Arrangements for Eligible Canadian Executives		
Registered Retirement Savings Plan	- Contribution to a registered retirement savings plan equal to 6.5% of a participant's annual base salary and annual incentive which is matched by the participant up to the maximum annual contribution limit allowed by the Canada Revenue Agency.	- Retain highly qualified leaders. - Simple to communicate and administer. - Motivates strong business performance. - Balance compensation for short-, medium- and long-term strategic results.
Defined Contribution Pension Plan (DC SERP)	- Accrual of 13% of annual base salary and annual incentive in excess of the allowed Canada Revenue Agency annual limit. - At time of retirement, paid in one lump sum or in equal payments over a period not greater than 15 years.	- Retain highly qualified leaders. - Simple to communicate and administer.
Pension Arrangements for Eligible US Taxpaying Executives		
Defined Benefit Plan	- The Retirement Income Plan of Central Hudson Gas & Electric Corporation (Retirement Plan). The Retirement Plan's assets are held in a trust fund. Central Hudson has provided periodic updates to the benefit formulas stated in the Retirement Plan.	- Retain highly qualified leaders. - Motivates strong business performance. - Balance compensation for short-, medium- and long-term strategic results.
Supplemental Executive Retirement Plan	- The Central Hudson Gas & Electric Corporation Supplemental Executive Retirement Plan (SERP) - The SERP is designed to work in conjunction with the Retirement Plan to provide benefits in excess of those under the Retirement Plan	- Retain highly qualified leaders. - Motivates strong business performance. - Balance compensation for short-, medium- and long-term strategic results.

The GHR Committee believes that the Corporation's compensation regime appropriately takes into account the performance of the Corporation and the contribution of the President and Chief Executive Officer and other Executive Officers of the Corporation toward that performance.

Annual Base Salary

Base salaries for the Executive Officers are established annually by reference to the range of salaries paid generally by comparable Canadian commercial industrial companies and are targeted to the median of the comparator group.

Annual Incentive Plan

The Executive Officers of the Corporation participate in a short-term incentive plan which provides for annual cash bonuses. The amount of each bonus is determined by way of an annual assessment of corporate and personal performance in relation to targets approved by the Board and is expressed as a percentage of each Executive Officer's base salary. The Corporation's annual net earnings must reach a minimum threshold level before any payout is made under the plan. For competitive reasons the minimum threshold level is not disclosed.

Corporate performance is determined with reference to the performance of the Corporation relative to weighted targets in respect of customer satisfaction, productivity, reliability and safety. For 2018, there were four corporate targets: (i) a customer satisfaction index as measured by quarterly customer surveys (15% weighting); (ii) a measure of annual net income (50% weighting); (iii) electrical system average interruption duration index calculated in accordance with national industry standards (15% weighting); and (iv) an all injury frequency rate calculated in accordance with national industry standards (20% weighting).

Personal performance is determined with reference to individual contribution to corporate objectives. For the President and Chief Executive Officer, 70% of the annual cash bonus is based on corporate targets and 30% is based upon individual targets. For each of the other Executive Officers, 50% of the annual cash bonus is based upon corporate targets and 50% is based upon individual targets.

In 2018, the target cash bonus, which is payable upon the achievement of 100% of corporate and individual targets, was 60% of base salary for the President and Chief Executive Officer, 40% for Vice President, Finance and Chief Financial Officer, 40% for Vice President, Operations and 30% - 35% of base salary for all other Vice Presidents. At the discretion of the Board, Executive Officers may be awarded additional incentive pay in recognition of exceptional performance contributions.

Medium- and Long-term Incentive Plan

Effective January 1, 2015, the Corporation changed its medium and long-term incentive granting practices to provide a target long-term incentive (LTI) value, expressed as a percentage of base salary, which is then granted in pre-determined proportions of PSUs, RSUs and stock options. The LTI value for the President and Chief Executive Officer is 125% of his base salary. The LTI value for the Vice President, Finance and Chief Financial Officer and the Vice President, Operations is granted LTI having a market value at the time of grant equal to 50% of their base salaries. Each of the other NEOs is granted LTI having a market value at the time of grant equal to 30% - 40% of their base salary. The LTI value is granted to all the Executive Officers (with the exception of Michael Mosher, President and Chief Executive Officer) through a combination of 50% in PSUs, 25% in RSUs and 25% in stock options.

Share-Based Awards

PSUs: Effective January 1, 2013, the Corporation adopted a PSU plan (2013 PSU Plan). Each PSU represents a unit with an underlying value equivalent to the value of a Fortis common share. Grants of PSUs are determined as a specified percentage of the participant's annual base salary divided by the volume-weighted average trading price of Fortis common shares for the five trading days immediately preceding the date of the grant. Notional dividends are assumed to accrue to the holder of the PSU and to be reinvested on the quarterly dividend payment dates of the common shares. Payment is made three years after the grant in an amount of 0-200% of the number of PSUs accumulated, including reinvestment of notional dividends, times the volume-weighted average trading price of Fortis common shares, as determined appropriate by the GHR Committee upon measurement of Fortis' performance, as compared to a comparable group of utility holding companies, over such three-year period against predetermined measures. Previous grants of PSUs are not taken into consideration when new PSUs are awarded. Effective January 1, 2015, the Corporation adopted a 2015 PSU Plan. The terms of the plan are largely consistent with the 2013 PSU Plan, with modifications related to the criteria by which Fortis' performance is measured and the maximum payment amount extended to 200%.

RSUs: Effective January 1, 2015, the Corporation adopted a RSU plan. Each RSU represents a unit with an underlying value equivalent to the value of a Fortis common share. Grants of RSUs and the accumulation of notional dividends are consistent with the PSU plan. Payment will be made three years after the grant in an amount of the number of RSUs accumulated, including reinvestment of notional dividends, times the volume-weighted average trading price of Fortis common shares.

Option-Based Awards

Long-term incentives take the form of grants of options under a Fortis Stock Option Plan, pursuant to which options to acquire Fortis common shares may be granted to Executive Officers, in order to encourage increased share ownership to participants as an incentive to maximize shareholder value. Beginning in 2015, the amount of annual grant is determined as a specified percentage of the participant's annual base salary divided by the binomial valuation of Fortis' common share price. In February 2018, Mr. Bomhof was granted options entitling him to purchase that number of common shares of Fortis having a market value at the time of grant equal to 30% of his base salary, which expired upon his resignation. Mr. Mosher does not participate in the Fortis Stock Option Plan. The Vice President, Finance and Chief Financial Officer and the Vice President, Operations were granted options entitling each executive to purchase that number of common shares of Fortis having a market value at the time of grant equal to 12.5% of such executive's salary. Each of the other executives were granted options entitling them to purchase that number of Fortis common shares having a market value at the time of grant equal to 7.5% - 10% of such executive's base salary. Previous grants of stock options are not taken into consideration when new options are awarded.

The 2006 Stock Option Plan became effective on May 2, 2006. Under this plan, options are subject to a vesting requirement whereby options vest at a rate of 25% per year over the four year period commencing on the first anniversary of the date of grant. The options granted prior to 2012 are exercisable for seven years from the grant date.

The stock option plan in place for 2018 was the 2012 Stock Option Plan. The 2012 Stock Option Plan became effective May 4, 2012. The provisions of the 2012 Stock Option Plan dealing with the eligibility, grant, terms of options, and vesting period are similar to the 2006 Stock Option Plan. The options granted in 2012 and subsequent years are exercisable for 10 years from the grant date.

Pension Arrangements

Executive Officers also participate in various pension arrangements as outlined on pages 40 and 41 of this AIF.

DIRECTOR AND NEO COMPENSATION

The following table sets forth information concerning the annual and long-term compensation earned for services rendered in respect of each of the individuals who were, for the year ended December 31, 2018, the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer and the Corporation's one other most highly paid Executive Officer. This table also details individual director compensation.

Name and Position	Year	Salary or Retainer ($) [(1)]	Annual Bonus ($) [(2)]	Committee or Meeting Fees ($) [(3)]	Value of Perquisites ($)[(4)]	Value of all Other Compensation ($) [(5, 6,7)]	Total Compensation ($)
Karl Bomhof [(8, 9, 10)] President and Chief Executive Officer	2018	220,000	125,523	-	31,639	1,398,673	1,775,835
	2017	344,100	-	-	-	70,436	414,536
Michael Mosher[(11, 12,13,14)] President and Chief Executive Officer and Director	2018	171,375	183,671	-	22,244	188,254	565,544
	2017	-	-	-	-	-	-
Janine Sullivan Vice President, Finance and Chief Financial Officer	2018	295,000	161,000	-	-	55,696	511,696
	2017	269,870	150,000	-	-	49,886	469,756
Cam Aplin Vice President, Operations	2018	285,000	147,000	-	-	55,765	487,765
	2017	266,000	190,000	-	-	50,180	506,180
Linda Apsey Director	2018	50,000	-	-	-	5,000	55,000
	2017	25,000	-	16,250	-	5,000	46,250
Tracey Ball [(15)] Director	2018	21,250	-	-	-	2,500	23,750
	2017	60,000	-	13,750	-	7,500	81,250
Ross Bricker Director	2018	50,000	-	-	-	3,750	53,750
	2017	18,750	-	13,750	-	-	32,500
Nora Duke Director	2018	50,000	-	-	-	6,250	56,250
	2017	25,000	-	16,250	-	5,000	46,250
Bill H. Giebelhaus Director [(17)]	2018	51,000	-	-	-	6,250	57,250
	2017	28,000	-	16,250	-	6,250	50,500
Mona Hale [(20)] Director	2018	55,250	-	-	-	6,250	61,500
	2017	25,000	-	12,500	-	5,000	42,500
David G. Hutchens Director	2018	50,000	-	-	-	6,250	56,250
	2017	25,000	-	11,250	-	5,000	41,250
Susan M. MacKenzie [(18)] Director	2018	53,000	-	-	-	1,250	54,250
	2017	25,000	-	13,750	-	-	38,750
Ray Price [(16)] Director	2018	37,500	-	-	-	1,250	38,750
	2017	-	-	-	-	-	-
Shelley Ralston Director	2018	50,000	-	-	-	3,750	53,750
	2017	25,000	-	16,250	-	5,000	46,250
Roger D. Thomas [(19)] Director	2018	78,000	-	-	-	-	78,000
	2017	31,000	-	13,750	-	-	44,750

Footnotes to Compensation Table:

(1) Represents the annual salary for the NEOs and the annual retainer of $50,000 paid to each of the Directors, the annual retainer of $85,000 paid to the Chairman of the Board, the annual retainer of $4,000 paid to the Chairperson of the GHR Committee and the annual retainer of $7,000 paid to the Chairperson of the ARE Committee.

(2) Represents amounts awarded under the Corporation's short-term non-equity incentive program in recognition of FortisAlberta's respective corporate performances and the individual's performance for the reported year and paid in the following year.

(3) Represents the remuneration fees of $1,250 paid to each Director for attending the directors' and committee meetings. These fees were eliminated in 2018 and are now included in the annual retainer with the new fee schedule.

(4) The value of perquisites for Mr. Bomhof is disclosed for 2018 as it exceeds the minimum disclosure threshold of 10% of the total annual salary of the NEO. Perquisites value includes: (i) executive medical health spending account; (ii) company parking stall (iii) personal use of company vehicle. Mr. Mosher's perquisites are based on the housing allowance, company parking stall and car allowance paid in 2018. Perquisites for other NEOs are not disclosed as they are less than the threshold of 10% of the total annual salary.

(5) Represents all compensation paid or accrued to NEOs relating to the DC SERP. Mr. Mosher does not participate in the defined contribution supplemental employee retirement plan, he participated in Central Hudson Gas & Electric Corporation Supplemental Executive Retirement Plan. See REPORT ON EXECUTIVE COMPENSATION – Pension Arrangements.

(6) Includes: (i) the dollar value on imputed interest benefits from loans provided to the NEOs and the dollar value of insurance premiums paid by the Corporation with respect to term life insurance; (ii) 10% match by the Corporation on contributions made to purchase Fortis shares through the Employee Share Purchase Plan; (iii) payment in lieu of vacation; (iv) contributions made by the Corporation to RRSP and SERP for the NEOs; and v) the taxable benefit associated with exercising stock options. Mr. Mosher's payment is inclusive of tax equalization payments paid in 2018.

(7) Represents the director's compensation in the amount of $1,250 for travel time to meetings located in a city outside of the location of their primary residence, if applicable.

(8) All of Mr. Bomhof's compensation was received in his capacity as an officer of the Corporation. Mr. Bomhof was not compensated for serving as a director of the Corporation while he was President and CEO.

(9) Mr. Bomhof resigned as President and CEO effective June 15, 2018.

(10) All Other Compensation for Mr. Bomhof includes a cash payment for his resignation from this position.

(11) All of Mr. Mosher's compensation is received in his capacity as an officer of the Corporation. Mr. Mosher is not compensated for serving as a director of the Corporation while he is President and CEO.

(12) Mr. Mosher was appointed President and CEO effective September 15, 2018.

(13) Mr. Mosher's salary includes tax equalization payments consistent with his contract.

(14) Mr. Mosher is paid in US currency, amounts reported are shown in Canadian and have been converted from US to Canadian dollars using a weighted average foreign exchange rate approach.

(15) Ms. Ball resigned from the Board of Directors effective April 2, 2018.

(16) Mr. Price joined the Board of Directors effective April 2, 2018.

(17) Mr. Giebelhaus was GHR Committee Chair in Q1.

(18) Ms. MacKenzie was GHR Committee Chair in Q2, Q3, and Q4.

(19) Mr. Thomas was ARE Committee Chair in Q1 and Board Chair in Q2, Q3 and Q4.

(20) Ms. Hale was ARE Committee Chair in Q2, Q3, and Q4.

COMPENSATION SECURITIES

The following table sets forth details of the securities granted to each NEO in the most recently completed financial year.

Name & Position	Type of Compensation Security	Number of Compensation Securities [(1)]	Date of Grant	Issue or Exercise Price[(2)] ($)	Closing Price of Underlying Security on Date of Grant [(3)] ($)	Closing Price of Underlying Security at Year End [(3)] ($)	Expiry Date [(4)]
Michael Mosher [(5,9)] President and Chief Executive Officer	-	-	-	-	-	-	-
Karl Bomhof[(8)] President and Chief Executive Officer	Stock Options	26,688	Feb 13, 2018	41.27	40.71	45.51	Feb 13, 2028
	PSU	5,988.8390	Jan 1, 2018	46.0089	45.53	45.51	Dec 31, 2020
	RSU	2,999.420	Jan 1, 2018	46.0089	45.53	45.51	Dec 31, 2020
Janine Sullivan[(6)] Vice President, Finance and Chief Financial Officer	Stock Options	7,132	Feb 13, 2018	41.27	40.71	45.51	Feb 13, 2028
	PSU	1,602.951	Jan 1, 2018	46.0089	45.53	45.51	Dec 31, 2020
	RSU	801.475	Jan 1, 2018	46.0089	45.53	45.51	Dec 31, 2020
Cam Aplin[(7)] Vice President, Operations	Stock Options	6,892	Feb 13, 2018	41.27	40.71	45.51	Feb 13, 2028
	PSU	1,548.613	Jan 1, 2018	46.0089	45.53	45.51	Dec 31, 2020
	RSU	744.307	Jan 1, 2018	46.0089	45.53	45.51	Dec 31, 2020

(1) Each unit of stock option, PSU and RSU are equivalent to one common share of Fortis. The compensation securities granted in 2018 represent less than 1 per cent of the total number of common shares issued and outstanding of Fortis.
(2) The exercise price for stock options and issue price for PSUs and RSUs is the volume weighted average price of the common shares of Fortis traded on the Toronto Stock Exchange for the five (5) trading days immediately preceding the date of grant.
(3) Represents the closing price of Fortis Common Shares on the TSX on the applicable dates.
(4) PSUs and RSUs granted in 2018 will be eligible for payment effective January 1, 2021.
(5) No securities were issued by FortisAlberta in 2018 to Mr. Mosher.
(6) At December 31, 2018, Ms. Sullivan held 22,488 unexercised stock options, of which 5,874 were fully vested. Options vest at a rate of 25 per cent, per year over the four year period commencing on the first anniversary of the date of grant. Ms. Sullivan also held 7,815 PSUs and RSUs, of which none were fully vested. PSUs and RSUs vest upon the completion of the three-year period from the date of grant.
(7) At December 31, 2018, Mr. Aplin held 39,238 unexercised stock options, of which 22,651 were fully vested. Options vest at a rate of 25 per cent, per year over the four year period commencing on the first anniversary of the date of grant. Mr. Aplin also held 7,169 PSUs and RSUs, of which none were fully vested. PSUs and RSUs vest upon the completion of the three-year period from the date of grant.
(8) Mr. Bomhof resigned as President and CEO effective June 15, 2018. All unvested stock options at the time of resignation were cancelled.
(9) Mr. Mosher was appointed President and CEO effective September 15, 2018.

The following table sets forth details of the securities exercised by each NEO in the most recently completed financial year. PSUs that fully vested on December 31, 2018 will be reviewed and approved for payment by the GHR Committee during the first quarter of 2019.

Name & Position	Type of Compensation Security [(1)]	Number of Underlying Securities Exercised	Exercise Price per Security ($)	Date of Exercise	Closing Price per Security on Date of Exercise ($)	Difference Between Exercise Price and Closing Price on Date of Exercise ($)	Total Value on Exercise Date ($)
Michael Mosher [(2)] President and Chief Executive Officer	PSUs	-	-	-	-	-	-
	RSUs	-	-	-	-	-	-
Karl Bomhof President and Chief Executive Officer	PSUs	1,003.585585	46.01	Jan 1, 2018	-	-	51,161
	RSUs	501.792792	46.01	Jan 1, 2018	-	-	23,087
	Stock Options	3,892	32.95	Jan. 29, 2018	43.19	10.24	39,836.08
		600	34.27	Aug. 30, 2018	42.50	8.23	4,938.00
		5,148	34.27	Sept. 4, 2018	42.66	8.39	43,185.71
		6,104	33.58	Sept. 4, 2018	42.63	9.05	55,250.13
		7,208	30.73	Sept. 4, 2018	42.61	11.88	85,639.86
		3,339	39.25	Sept. 4, 2018	42.59	3.34	11,155.61
		4,324	37.30	Sept. 4, 2018	42.57	5.27	22,808.969
		1,824	42.36	Sept. 4, 2018	42.57	0.21	374.54
Janine Sullivan Vice President, Finance and Chief Financial Officer	PSUs	-	-	-	-	-	-
	RSUs	-	-	-	-	-	-
	Stock Options	-	-	-	-	-	-
Cam Aplin Vice President, Operations	PSUs	990.664311	46.01	Jan 1, 2018	-	-	50,502
	RSUs	495.332156	46.01	Jan 1, 2018	-	-	22,790
	Stock Options	-	-	-	-	-	-

(1) PSUs represent the 2015 PSU values that were realized and paid in 2018 in respect of the three-year period. The actual value of the PSUs at the payment date is dependent on meeting the payment criteria and corporate performance. RSUs represent the 2015 RSU value that were realized and paid in 2018 in respect of the three-year period.
(2) Mr. Mosher does not participate in the stock options program.

PENSION ARRANGEMENTS

In 2018, the Corporation contributed to an RRSP for the NEOs at an amount equal to 6.5% of their annual base salary, which contributions were matched by the NEOs up to a maximum RRSP contribution limit of $26,230 as allowed by the Canada Revenue Agency. In 2018, the Corporation contributed $13,115 for each of Mr. Bomhof, Ms. Sullivan, and Mr. Aplin.

The NEOs participate in a non-contributory DC SERP. In 2018, the DC SERP provided for the contribution by the Corporation of an amount equal to 13% of the annual base salary plus annual paid cash bonus of Mr. Bomhof, Ms. Sullivan, and Mr. Aplin in excess of $201,769 to a notional account upon which interest will accrue at the interest rate of a 10-year Government of Canada bond, plus a premium of 0% to 3%, dependent upon years of service.

Prior to joining the Corporation Mr. Mosher participated in the Retirement Income Plan of Central Hudson Gas & Electric Corporation and the Central Hudson Gas & Electric Corporation Supplemental Executive Retirement Plan. Mr. Mosher's participation continues in the aforementioned plans during for the term of his employment agreement. Mr. Mosher does not participate in the RRSP or DC SERP as listed above.

The following table sets forth details of the balances accrued due to the NEOs pursuant to pension arrangements for the year ended December 31, 2018.

Name and Principal Position	Accumulated Value at Start of Year ($)	Compensatory ($)	Accumulated Value at Year-end ($)
Michael Mosher (1) President and Chief Executive Officer	497,007	176,459	673,466
Karl Bomhof (2) President and Chief Executive Officer	174,580	19,846	0
Janine Sullivan Vice President, Finance and Chief Financial Officer	114,333	36,166	150,499
Cam Aplin Vice President, Operations	136,717	37,437	174,154

(1) Mr. Mosher's accumulated values represent the accrued benefits under both the Retirement Income Plan of Central Hudson Gas & Electric Corporation and the Central Hudson Gas & Electric Corporation Supplemental Executive Retirement Plan following his transfer to FortisAlberta. Values represented were converted from U.S. to Canadian dollars using the 2018 average exchange rate of the period of time Mr. Mosher worked for FortisAlberta; $1.315878 = $1.00 CAD.

(2) Mr. Bomhof's benefit entitlement was paid out as a lump sum upon his resignation from FortisAlberta.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the directors or officers are indebted to the Corporation other than routine indebtedness.

TERMINATION OF EMPLOYMENT, CHANGE IN RESPONSIBILITIES AND EMPLOYMENT CONTRACTS

There is a written employment agreement for Mr. Mosher which contains the basic provisions of employment including, among other things, base salary, short-term incentive bonus, benefits, vacation, and relocation. This agreement contains provisions dealing with termination (whether voluntary, involuntary or constructive), resignation, retirement, or a change in control that would produce an estimated payment of $1,736,959 (approximate value of one and a half times Mr. Mosher's base salary and target bonus). The agreement also includes provisions for a retention incentive bonus payable at an estimated $1,157,973.[1]

Other than the agreement for Mr. Mosher listed above there are no employment contracts between the Corporation and its NEOs that provide for payments at, following or in connection with any termination, resignation, retirement, change in control of the Corporation or a change in the NEOs' responsibilities.

COMPENSATION OF DIRECTORS

The GHR Committee reviews director compensation on a periodic basis by reviewing directors fees paid by organizations of similar size and complexity to the Corporation.

The Corporation pays an annual retainer to each of its directors of $50,000. In addition to the annual retainer, each director that was not resident in the community in which a meeting is held receives an additional $1,250 of remuneration if they travel to the community to attend the meeting.

[1] Mr. Mosher is compensated in U.S. Funds. The estimated payments were converted from U.S. to Canadian dollars using the 2018 average exchange rate of the period of time Mr. Mosher worked for FortisAlberta; $1.315878 = $1.00 CAD.

The Chairman of the Board is not entitled to receive the annual retainer paid to directors as described above. Instead, the Chairman receives a separate annual retainer of $85,000. The Chairpersons of each Board Committee receive remuneration in addition to the annual retainer paid to directors described above. The Chairperson of the GHR Committee receives an additional annual retainer of $4,000. The Chairperson of the ARE Committee receives an additional annual retainer of $7,000.

The directors are also reimbursed for miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors of the Corporation. Mr. Bomhof and Mr. Mosher were not paid any remuneration for services rendered in their capacity as a director in accordance with the Corporation's policy of not compensating a director that is also a member of the management of the Corporation.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, there are no material contracts which have been entered into by the Corporation.

LEGAL PROCEEDINGS

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations, none of which are currently material to the Corporation.

FORWARD-LOOKING INFORMATION

The Corporation includes forward-looking information in the AIF within the meaning of applicable securities laws in Canada. The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management.

The forward-looking information in the AIF includes, but is not limited to statements regarding: the Corporation's expectation on remaining a regulated electric utility; the Corporation's expectations relating to the conduct, outcome and timing of regulatory hearings and other litigation matters; the Corporation's expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; and the Corporation's belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the Corporation's current business plans; the Corporation's understanding of the regulatory environment; the advice provided to the Corporation by its advisors; the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its electricity systems to ensure their continued performance; favourable economic conditions; the level of interest rates; access to capital; maintenance of adequate insurance coverage; the ability to obtain licenses and permits; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: legislative and regulatory developments that could affect costs, revenues and the speed and degree of competition entering the electricity distribution market; loss of service areas; costs associated with environmental compliance and liabilities; costs associated with labour disputes; adverse results from litigation; timing and extent of changes in prevailing interest rates; inflation levels; weather and general economic conditions in geographic areas where the Corporation operates; and results of financing efforts.

All forward-looking information in the AIF is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

TRANSFER AGENTS AND REGISTRARS

Computershare Trust Company of Canada, at its office located at Calgary, Alberta, is the Trustee under the Corporation's Indentures. Registers for the registration and transfer of the Debentures will be kept at the offices of the Trustee in Calgary, Alberta. The Trustee is also the paying agent for the Debentures.

EXTERNAL AUDITORS SERVICE FEES

The Corporation's financial statements for the year ended December 31, 2018 have been audited by Deloitte LLP, which were first appointed by the shareholders of the Corporation on May 4, 2017. The aggregate amounts paid or accrued by the Corporation with respect to fees payable to Deloitte LLP for the last two completed financial years for audit, audit-related, tax and other services in the applicable fiscal periods ended were as follows:

	2018	**2017**
Audit Fees	316,945	312,930
Audit-Related Fees	33,400	38,750
Tax Fees	-	-
All Other Fees	15,515	21,186
Total	**365,860**	**372,866**

The audit fees include the aggregate professional fees paid to the auditors for the audit of the annual financial statements, the quarterly reviews, work performed related to issuance of debt and translation services. The audit-related fees include the aggregate professional fees paid to the auditors for employee benefit plan audit and consultation on financial accounting and reporting standards. All other fees are for a Section 7600 Report in 2018 and a web application vulnerability assessment and penetration test in 2017.

The Corporation is relying upon the exemption in section 6.1 of National Instrument 52-110 Audit Committees.

INTERESTS OF EXPERTS

Deloitte LLP is the auditor of the Corporation and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information related to FortisAlberta may be found on SEDAR at www.sedar.com. Financial information is provided in the December 31, 2018 audited Financial Statements and Management Discussion and Analysis, which can also be found on SEDAR at www.sedar.com.